

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, 2000*



March 2001
2000-002

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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

March 29, 2001

2000-002

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

Dear Governor and Legislative Leaders:

As required by the California Government Code, Section 8542 et seq., the Bureau of State Audits presents its audit report concerning our review of the State of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 2000.

This report finds that the State continues to have problems in establishing an effective system of internal control over financial reporting and compliance with federal requirements. In addition, it does not always adhere to established control procedures. As a result, the State has not always complied with some state and federal regulations. Although none of the problems we identified are 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,

Elaine M. Howle

ELAINE M. HOWLE
State Auditor

BUREAU OF STATE AUDITS

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*Internal Control and State and
Federal Compliance Audit Report
for the Fiscal Year Ended June 30, 2000*

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AUDITOR'S SECTION

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Independent Auditor's Reports on Compliance and Internal Control

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**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, 2000, and have issued our report thereon dated November 17, 2000. We did not audit the financial statements of certain capital projects funds, which reflect total assets and revenues, constituting 71 percent and 70 percent, respectively, of the capital projects funds. In addition, we did not audit the financial statements of certain enterprise funds, including those of the California State University, which reflect total assets and revenues, constituting 91 percent and 93 percent, respectively, of the enterprise funds. We did not audit the financial statements of certain internal service funds, which reflect total assets and revenues, constituting 26 percent and 47 percent, respectively, of the internal service funds. We also did not audit the financial statements of the pension trust funds, which reflect total assets constituting 88 percent of the fiduciary funds. Finally, we did not audit the University of California funds or the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 95 percent and 92 percent, respectively, of the component unit authorities. The financial statements of certain capital projects, enterprise and internal service funds, the pension trust 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*.

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 2000-19-1, 2000-19-2, 2000-19-3, and 2000-20-1.

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 17, 2000

**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, 2000. 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, 2000. The University of California and the California State University systems, which reported expenditures of federal awards totaling \$1.9 billion and \$951.4 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 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, 2000. 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, 2000, and have issued our report thereon dated November 17, 2000. We did not audit the financial statements of certain capital projects funds, which reflect total assets and revenues, constituting 71 percent and 70 percent, respectively, of the capital projects funds. In addition, we did not audit the financial statements of certain enterprise funds, including those of the California State University, which reflect total assets and revenues, constituting 91 percent and 93 percent, respectively, of the enterprise funds. We did not audit the financial statements of certain

internal service funds, which reflect total assets and revenues, constituting 26 percent and 47 percent, respectively, of the internal service funds. We also did not audit the financial statements of the pension trust funds, which reflect total assets constituting 88 percent of fiduciary funds. Finally, we did not audit the University of California funds or the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 95 percent and 92 percent, respectively, of the component unit authorities. The financial statements of certain capital projects, enterprise and internal service funds, the pension trust 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 cash receipts 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 17, 2000

Attachment

ATTACHMENT

The compliance issues are:

2000-1-1	2000-9-1
2000-1-2	2000-12-1
2000-1-3	2000-12-2
2000-2-3	2000-12-3
2000-2-4	2000-12-6
2000-3-1	2000-12-7
2000-3-3	2000-13-1
2000-3-4	2000-13-2
2000-3-5	2000-13-4
2000-3-6	2000-13-5
2000-3-7	2000-13-6
2000-5-1	2000-13-7
2000-5-2	2000-14-3
2000-5-3	2000-14-5
2000-8-1	2000-14-6

The internal control over compliance issues are:

2000-2-1	2000-9-4
2000-2-2	2000-10-1
2000-3-1	2000-12-3
2000-3-2	2000-12-4
2000-3-3	2000-12-5
2000-3-4	2000-12-6
2000-3-6	2000-13-1
2000-7-1	2000-13-3
2000-7-2	2000-14-1
2000-9-2	2000-14-2
2000-9-3	2000-14-4
	2000-14-6

Schedule of Findings and Questioned Costs

**STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

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	\$55.08 million
Auditee qualified as low-risk auditee?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster of Programs
	Food Stamp Cluster
	Child Nutrition Cluster
	Emergency Food Assistance Cluster
	Fish and Wildlife Cluster
	Employment Services Cluster
	JTPA Cluster
	Highway Planning and Construction Cluster
	Student Financial Aid Cluster
	Special Education Cluster
	Child Care Cluster
	Medicaid Cluster
10.550	Food Distribution
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
17.253	Welfare-to-Work Grants to States and Localities
83.544	Public Assistance Grants
83.548	Hazard Mitigation Grant
84.002	Adult Education—State Grant Program
84.010	Title I Grants to Local Educational Agencies
84.011	Migrant Education—Basic State Grant Program
84.048	Vocational Education—Basic Grants to States
84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States
84.181	Special Education—Grants for Infants and Families with Disabilities
84.186	Safe and Drug-Free Schools and Communities—State Grants
84.276	Goals 2000—State and Local Education Systemic Improvement Grants
84.278	School to Career—Implementation Grants
84.340	Class Size Reduction
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.645	Child Welfare Services—State Grants
93.674	Independent Living
93.767	State Children's Insurance Program
93.917	HIV Care Formula Grants
93.994	Maternal and Child Health Services Block Grant to the States

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Compliance and Internal Control Issues Applicable to the Financial Statements

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HEALTH AND HUMAN SERVICES DATA CENTER

Reference Number: 2000-19-1

CONDITION

The Health and Human Services Data Center (data center) demonstrated insufficient management review and inaccurate record keeping in preparing its fiscal year 1999-2000 financial statements in accordance with generally accepted accounting principles (GAAP). We noted 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:

- The data center did not adequately review its financial statements to ensure that the statements agreed with the subsidiary records before submitting the financial statements to the State Controller's Office (Controller's Office). In particular, we found that liabilities initially reported on the data center's pre-closing trial balance for accounts payable, claims filed, and installment contracts payable exceeded the subsidiary records by a total of \$12.2 million. After we brought this to management's attention, the data center submitted revised statements to the Controller's Office that materially agreed with the subsidiary records.
- The data center's subsidiary record for claims filed, which is reported as part of accounts payable in its financial reports, contained multiple errors. Specifically, we found that the data center overstated the claims filed balance by at least \$7,829,826 because it failed to remove from the subsidiary records 45 claims that the Controller's Office had already paid prior to June 30. In addition, we found that the data center failed to include in its subsidiary five of the seven claim schedules we reviewed that the Controller's Office paid in July 2000, even though the schedules were prepared before June 30. As a result of the failure to include these five claim schedules, the claims filed balance was understated by at least \$686,593.
- The data center also does not have adequate procedures to ensure that all liabilities that should be classified as accounts payable are properly reported per GAAP. Specifically, we found that 5 of the 19 invoices we reviewed were not included in the accounts payable balance even though the data center had received the related goods and services before June 30. In addition, the data center improperly recorded a liability for one additional invoice even though it did not receive the goods until after June 30. The net effect of these errors resulted in a \$4.5 million understatement of the accounts payable balance.

We reported similar concerns regarding the data center's preparation of its fiscal year 1998-99 financial statements.

CRITERIA

The California Government Code, sections 13401 and 13404, requires state agencies to maintain an effective system of internal 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 our findings, has taken steps to improve record-keeping procedures, and added a position for its accounting office to assist with timely and accurate reporting.

DEPARTMENT OF CORRECTIONS—HEADQUARTERS

Reference Number: 2000-19-2

CRITERIA

Our review of the State's General Fixed Assets determined that the following compliance requirements relate to the Department of Corrections—Headquarters (headquarters):

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

Additionally, the State Administrative Manual, sections 7463, 7977, and 8660, requires 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 governmental funds. The Controller's Office includes this information in the State's financial statements.

Further, the Department of Finance (Finance) issued directives in August 1999 and July 2000 requiring agencies to evaluate the risk of an incomplete inventory. 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

Headquarters does not generally acquire land, structures, or improvements for its own use. However, headquarters temporarily accounts for and reports fixed assets for new facilities. When the new facility's accounting system is operational, headquarters transfers the reporting responsibility to its regional accounting office. Headquarters is in the process of reconciling its real property records and its Statement of Changes in General Fixed Assets to the Statewide Real Property Inventory. Further, headquarters is in the process of developing new procedures to perform the reconciliation.

During February 2001, we reviewed headquarters' progress in reconciling its General Fixed Assets. We found that headquarters was in the process of researching land and improvements totaling \$15.9 million. This amount was included in headquarters' Statement of Changes in General Fixed Assets but not yet reconciled to the Statewide Real Property Inventory. Specifically, we found one land parcel totaling \$13.2 million included in the Statement of Changes in General Fixed Assets was not reported on the Statewide Real Property Inventory. The land parcel, originally acquired at least 10 years ago for the construction of a new facility, is not suitable for its intended purpose. Thus, headquarters should report this land to General Services for the Statewide Real Property Inventory until it is sold or disposed. In addition, \$2.7 million in improvements was not reported in the Statewide Real Property Inventory. According to headquarters' staff, these improvements were not acquired for headquarters' own use; however, it included them in its Statement of Changes in General Fixed Assets and must do additional research before transferring them to the responsible regional accounting office that should be reporting them.

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

RECOMMENDATION

We recommend that headquarters annually reconcile amounts reported in the Statewide Real Property Inventory to its Statement of Changes in General Fixed Assets. In addition, it should report the land parcel to General Services and continue to investigate the remaining improvements to identify and transfer them to the

responsible regional accounting office for reporting. Further, headquarters should finish developing procedures to reconcile its Statement of Changes in General Fixed Assets to the Statewide Real Property Inventory.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Headquarters agrees with our findings and continues to work on reconciling its Statement of Changes in General Fixed Assets to the Statewide Real Property Inventory. In addition, it plans to develop procedures to ensure that the transfer of reporting responsibilities to regional accounting offices is complete and timely. These procedures will also include reconciling its Statement of Changes in General Fixed Assets to the Statewide Real Property Inventory annually. Lastly, headquarters states that it has added a permanent position to assist in tracking and reporting General Fixed Assets.

VARIOUS STATE DEPARTMENTS

Reference Number: 2000-19-3

CONDITION

State departments do not always report their employees' taxable fringe benefits and business expense reimbursements. Federal and state tax laws require that employers report income and related tax for payments other than regular wages, including fringe benefits and business expense reimbursements. Fringe benefits—cash, property, or services received in addition to regular pay—are reportable as taxable income unless specifically excluded in Internal Revenue Service (IRS) regulations. Examples of such taxable reimbursements include moving and relocation expenses, mileage compensation for commuting or personal travel between home and office when employees must work overtime (overtime or callback mileage), and payment for employees' meals when they must work overtime or 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 report to the Controller's Office by the 10th of the month following the month in which the payments were made. The Controller's Office then calculates and deducts the required taxes.

Despite these requirements, some departments do not always ensure that all employees' taxable benefits or taxable business expense reimbursements are being reported to the Controller's Office. We reviewed the reporting of employee taxable benefits and reimbursements at eight state departments and two state universities for fiscal year 1999-2000. We reviewed from approximately 150 to more than 750 travel expense claims at each entity to verify that employee taxable reimbursements were properly reported. However, not all of the travel expense claims we reviewed had taxable benefits claimed.

We found five state departments and one university—the Department of Alcohol and Drug Programs; Department of Health Services; Department of Parks and Recreation; Department of Rehabilitation; Department of Veterans Affairs, Veterans Home of California, Yountville; and San Diego State University—did not ensure they met the reporting requirements the Controller's Office described. The table below shows the total number of travel expense claims with reportable items that we reviewed at these departments and the university, and the number of items not reported to the Controller's Office.

Table

***Reportable Items Not Reported to the
Controller's Office in Fiscal Year 1999-2000***

STATE AGENCY	Total Number of Reportable Items Reviewed	Items Not Reported		
		Callback Mileage	Meals for Less Than 24-Hour Travel/Overtime Meals	Moving/ Relocation Expenses
Department of Alcohol and Drug Programs	17	3	5	N/A
Department of Health Services	23	N/A	16	N/A
Department of Parks and Recreation	36	0	18	N/A
Department of Rehabilitation	26	N/A	21	N/A
Department of Veterans Affairs—Veterans Home of California, Yountville	20	2	4	N/A
San Diego State University	22	N/A	16	6
TOTALS	144	5	80	6

N/A: None included in travel expense claim.

We reported similar concerns for fiscal year 1998-99 at six other agencies. Five of the agencies have moved forward in establishing internal procedures for reporting taxable benefits to the Controller's Office. However, as of February 2001, the State Water Resources Control Board had not implemented any internal procedures for reporting personal use of state vehicles 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 130.1.2 states that reimbursements to employees for daily commuting expenses, such as for expenses from commuting or personal travel between home and office, is considered taxable income. This would include callback and overtime mileage.
- Section 143.3 states that overtime meal compensation is reportable and taxable income.
- Section 145.1.2 states that meal reimbursement for less than 24-hour travel without lodging is taxable income. Simply stated, if an employee receives reimbursement for meals during travel in which there was no overnight stay, this reimbursement is taxable income.
- Section 147.1 states that reimbursements for certain nonqualified moving and relocation expenses are taxable income. This would include all meals connected with the move, storage more than 30 days after moving into a residence, temporary living expenses, sale or purchase of a residence, and unexpired or new leases.

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 Department of Alcohol and Drug Programs agrees with our finding. The department has corrected the errors found during our testing. In addition, the department plans to implement procedures to ensure that all taxable benefits are reported to the Controller's Office.

The Department of Health Services agrees with our finding. The department claims it has procedures in place for the reporting of taxable fringe benefits and has conducted training to ensure that the reporting is systematic and complete. The department also reviewed all of its claims for unreported taxable benefits in addition to the items we found and subsequently reported them to the Controller's Office.

The Department of Parks and Recreation agrees with our finding and it believes the errors occurred due to vacancies in the department, which resulted in a backlog. It has corrected the errors and reported the taxable benefits we found to the Controller's Office. The department states that it will ensure that procedures are followed to ensure that all reportable payments are reported to the Controller's Office in a timely manner.

The Department of Rehabilitation agrees with our finding. It has corrected its records and reported the taxable benefits to the Controller's Office. It states that it has implemented procedures to identify and capture the taxable reimbursements for proper reporting to the Controller's Office.

The Department of Veterans Affairs—Veterans Home of California, Yountville, agrees with our finding. It has reported the taxable benefits we found to the Controller's Office. Beginning July 2001, the department plans to implement procedures to ensure accurate reporting of all taxable benefits.

San Diego State University agrees with our finding. It reports that it has instituted procedures and provided training to ensure that appropriate tax reporting is accomplished for meal reimbursements for less than 24-hour travel without lodging and for moving and relocation claims. Reporting failures noted in the audit were corrected and reported to the Controller's Office.

The State Water Resources Control Board (board) agrees with our finding and believes that it failed to report certain taxable benefits because of excessive turnover in the accounting office and implementation of new program initiatives. The board states that it is establishing procedures to report taxable benefits to the Controller's Office and plans to have the procedures in place by April 1, 2001.

DEPARTMENT OF GENERAL SERVICES

Reference Number: 2000-20-1

CONDITION

The Department of General Services (General Services), Office of Fiscal Services, maintains the accounting and financial records for construction projects managed by General Services' Real Estate Services Division. At the end of the fiscal year, the Office of Fiscal Services reports in summary the beginning balance, additions, deductions, and ending balance of approximately 2,500 projects as construction in progress for inclusion in the State's financial statements.

For the fiscal year ending June 30, 2000, the Office of Fiscal Services' general ledger account for construction in progress did not reconcile with its subsidiary records. The general ledger balance was approximately \$1.7 billion, while a preliminary project listing totaled almost \$2.1 billion. General Services stated that its information technology consultant had indicated there was no need to reconcile financial data in the project listing and the general ledger because the system on which both operated was fully integrated and the information should be the same in each report. However, the system did not perform as expected. Unless the subsidiary records support the general ledger balance, General Services has less assurance that the amounts included in the State's financial statements are correct.

CRITERIA

The State Administrative Manual, Section 7900, says that the accuracy of a number of the accounting records of an agency may be proved partially by making reconciliations and verifications. Likewise, a good internal control system dictates that subsidiary records support general ledger balances.

RECOMMENDATION

To ensure proper year-end reporting of construction in progress balances in the State's financial statements, General Services should reconcile its construction in progress general ledger account with its subsidiary records.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

General Services agrees with our finding and recommendation. It plans to develop written procedures to reconcile its file of projects in progress with its construction in progress general ledger account. Also, it will develop procedures to identify additions and deletions to construction in progress. General Services expects to have the procedures to begin a reconciliation process completed by May 2001.

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Compliance Issue Related to All Federal Grants

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IDENTIFYING PROGRAM EXPENDITURES

Reference Number: 2000-12-1
Federal Program: All Programs
Category of Finding: Reporting

CRITERIA

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

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), requires that the State prepare a schedule showing total expenditures for the year for each federal program. Further, OMB Circular A-133 requires that the State identify and audit all high-risk Type A federal programs, 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 119 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 four such programs. Our review of the expenditures of these programs showed that none of them exceeded the Type A threshold.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

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

Reference Number: 2000-3-7
Federal Catalog Number: 10.558
Federal Program Title: Child and Adult Care Food Program
Federal Award Number and
Calendar Year Awarded: 7N1099; 1999
Category of Finding: Cash Management
State Administering Department: Department of Education

CRITERIA

Our review of the Child and Adult Care Food Program (food program) 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), require 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 in a timely manner from food program participants who are no longer entitled to these funds. Specifically, Education's records showed 15 participants converted on October 1, 1999, from child-care centers to head-start centers. Because Education required the participants to cancel their child-care center agreements, it billed the participants for outstanding advances totaling more than \$948,000 that the participants received as child-care centers. However, Education did not bill the 15 participants until at least June 22, 2000, more than eight months after the conversion.

Additionally, our review of 10 other participants that had outstanding advances when they were canceled from the food program showed that in nine cases, Education took between five months and three years and two 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 uncollectible.

We reported a similar finding in our audit of fiscal year 1998-99. Education has since used a Cash Advance Payment Report each quarter to identify participants holding outstanding advances that changed classification or canceled program participation. However, Education does not have adequate procedures to promptly bill and recover outstanding advances.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education has reviewed its procedures for ensuring cash advance recovery when a participant is canceled or terminated from the food program. Since reorganization of Education's Nutrition Services Division, the Resources and Information Management (RIM) unit has assumed responsibility for processing participant cancellation and termination documentation. Effective December 1, 2000, a RIM analyst oversees the processing of cancellation and termination documentation to ensure timely notification to staff in the Fiscal and Administrative Services Division's Child Nutrition Fiscal Services (CNFS) unit. Upon receipt of notification, CNFS prepares a billing request and forwards the billing to Education's Accounting Office. The Accounting Office invoices the participant, providing a copy of the invoice to CNFS and RIM.

The RIM analyst has established a log that will note the notification, billing, and invoicing action dates and timelines. The RIM analyst will record when each of the subsequent overdue billing notices are mailed and when a response or payment is received from the participant. If payment is not received within 120 days of the original billing letter, the RIM analyst will notify the Nutrition Services Division's Financial Management Unit to begin asset check and collection procedures. The RIM analyst will provide Education management with a monthly status report on this finding.

Reference Number:	2000-5-3
Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Number and Calendar Year Awarded:	7N1099; 1999
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), require 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 annually obtain a copy of the actual license.

CONDITION

Education needs to improve its process for ensuring that certain child-care institutions participating in the food program meet the applicable licensing or approval requirements. Education relies on data from the Department of Social Services (Social Services), which licenses child-care centers in 48 of 58 state counties. The remaining 10 counties license sites independent of Social Services' procedures. Education states it verifies the licensing of sites in independent counties by receiving periodic revocation lists from the counties. However, Education only received revocation lists from one of the 10 counties. Thus, it could not demonstrate that it confirms the license status of sites in 9 of the 10 independent counties. Without proper licensing documentation, Education cannot ensure that institutions were eligible to participate in the food program.

We reported a similar finding in our audit of fiscal years 1996-97, 1997-98, and 1998-99. Education has since established a direct electronic link to Social Service's database of child-care licensing information in 48 counties. Education personnel regularly receive and reconcile Social Services' database with information contained in Education's database.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education has implemented the following plan to improve the existing process for ensuring verification of licensing status from the ten counties that independently license food program sites. As of March 2001, a Resources and Information Management (RIM) analyst in Education's Nutrition Services Division will oversee license verification as a primary task. By March 15, 2001, the RIM analyst will contact each of the ten counties that issue licenses independently to request that Education receive ongoing and timely notification when the licensing agency revokes or cancels a license.

Education has contacted these ten counties in the past with very limited success; therefore, the RIM analyst will periodically contact each licensing agency to assure continued response. The RIM analyst will ascertain if electronic data is available and, if possible, obtain access to the licensing data. If electronic data is not available, the RIM analyst will request monthly reports from the licensing agencies on the status of revocation and cancellation of licenses. As Education's contact, the RIM analyst will maintain documentation of contacts, responses to the contacts, and logs of the monthly reports. Starting April 15, 2001, the RIM analyst will provide a monthly report to Education management on the status of the licensing verification process.

Monthly, Education management will evaluate the effectiveness of the new process. If a county licensing agency is not responsive to the RIM analyst's request, Education management will progressively elevate the level of contact, beginning with the Division Director and going up to the office of the State Superintendent of Public Instruction, if necessary to obtain the licensing data.

Reference Number:	2000-7-2
Federal Catalog Number:	10.555
Federal Program Title:	National School Lunch Program
Federal Award Number and Calendar Year Awarded:	7N1005; 1998
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 (state match) shall not be less than 30 percent of the funds received by the State for the National School Lunch Program 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 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 state match. Finally, Section 210.20(b) requires the State to maintain records to support the amount it reported using for the state match.

CONDITION

The Department of Education (Education) lacked adequate controls and documentation to support its reported state match. For fiscal year 1998-99, Education reported that it spent \$43.6 million in state funds for the National School Lunch Program, more than twice 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. As a result, Education cannot demonstrate that it met and accurately reported its state match.

We reported a similar finding in our audit of the fiscal year 1997-98 matching requirement. At that time, Education's billing system combined the state match of the National School Lunch Program and other food programs into one category. For fiscal year 1998-99, Education determined a way to separate one food program's state match from the shared category. However, Education could not separate the National School Lunch Program's state match from the shared category.

RECOMMENDATION

Education should continue to explore possible alternatives to separately track and maintain adequate support for qualified state revenues to ensure that it can demonstrate its compliance with the state matching and reporting requirement.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

As reported in response to the 1998-99 single audit finding, Education is in the process of replacing the ANSWER payment system. The new system, when complete, will track state matching funds by individual program. In the interim, Education is obtaining the number of state reimbursed lunches by school type from the ANSWER system. The number of reimbursed lunches is being multiplied by the appropriate state meal rate to obtain the total state match for the National School

Lunch program. This number was reported as the state match amount on the October 2000 report Education submitted to the U.S. Department of Agriculture. At this time and in the foreseeable future, there is no risk that California will fail to meet the state matching requirement.

Reference Number:	2000-14-5
Federal Catalog Number:	10.550
Federal Program Title:	Food Distribution
Calendar Year Awarded:	State fiscal year 1999-2000
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Education

CRITERIA

Our review of the Food Distribution program 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 of the receipt, distribution, use, and inventory of donated foods. In addition, Section 250.14(c) requires storage facilities to be reviewed annually. 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 damaged.

CONDITION

Education did not properly account for its donated foods. Specifically, during our observation of its June 2000 physical inventory of donated foods stored in the Sacramento warehouse, we found that Education did not properly reconcile differences that were in some instances significant between the warehouse physical count and perpetual records for processed food. After we brought these differences to its attention, Education made the proper adjustments to its perpetual records. However, it was unable to provide us with sufficient information to show that it had determined whether the adjustments were caused by accounting errors or lost, stolen, or damaged processed food.

RECOMMENDATION

Education should make sure that it properly accounts for donated foods. Specifically, it should investigate and properly reconcile differences between the physical count and the perpetual records and make sure that the adjustments made to the perpetual records are correct. It should also thoroughly investigate any major discrepancies and properly identify food items lost, stolen, or damaged. Finally, it should notify the USDA as required.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education successfully completed the physical inventory reconciliation at the Sacramento warehouse as of June 2000. However, some records pertaining to the transfer of processed commodities from the formerly used commercial storage facility to the Sacramento warehouse were not accurate, or could not be located for reconciliation of the physical inventory with the perpetual inventory record. The reconciliation problems between the physical count and the perpetual records involved only commercially processed foods. These processed food inventory records have now been reconciled.

Education's written warehouse procedures include a physical verification of incoming commodities to the accompanying documents. Education has hired new office staff at the Sacramento warehouse, including an Office Services Supervisor. The Office Services Supervisor acts a critical checkpoint to ensure accuracy of the verification of incoming commodities. The additional level of supervision will facilitate Education's management of the inventory process, including maintenance of the documentation needed for inventory reconciliation. The additional staff will ensure that the physical inventory is accurate.

Monthly, Education reconciles the physical inventory and perpetual inventory records at the Sacramento warehouse. Education management is requiring a status report on this finding upon completion of each monthly reconciliation.

There have been no commodity losses at the Sacramento warehouse requiring reporting to the USDA during the past year.

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

Reference Number: 2000-3-5

Category of Finding: Cash Management

State Administering Department: Department of Health Services

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

CRITERIA

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

The Code of Federal Regulations, Title 31, Part 205, Section 205.7(b), requires the State to minimize the time between the transfer of funds from the U.S. Treasury and the disbursement of these funds for program purposes. Section 205.9 allows the State to enter into a Treasury-State agreement to set forth the terms and conditions for implementing this requirement. For programs covered under a Treasury-State agreement, the State incurs an interest liability to the federal government when the State has federal funds in a State account prior to the day the State pays the funds for program purposes. For programs not covered by a Treasury-State agreement, Section 205.20 requires the State to limit the cash advances to the minimum amounts needed and time the advances, as best it can, to be in accord with the actual and immediate cash needs of the State to carry out the program. According to federal guidelines, the State must receive these advances as close as possible to the time when it releases payments for program costs.

CONDITION

The Department of Health Services (Health Services) did not minimize the time between the receipt and disbursement of federal program funds for two programs we reviewed. As a result, the State may owe the federal government for the interest it earned on these federal funds during fiscal year 1999-2000.

For the Special Supplemental Nutrition Program for Women, Infants, and Children, Health Services requested a \$764,000 federal cash transfer for which it did not have supporting expenditures. According to Health Services, it requested this transfer because the U.S. Department of Agriculture warned it that the federal award was about to expire and that it would lose the remaining award if it did not use the funds. Therefore, in February 2000, Health Services requested the transfer with the intention of identifying at a later date those program expenditures charged to a more recent award that it could use to support the transfer. According to Health Services, as of

December 2000, it had not yet identified these program expenditures. Additionally, although this program is covered by the Treasury-State agreement, Health Services did not report to the Department of Finance (Finance), the state agency responsible for calculating the State's interest liability, that it had received this \$764,000 transfer. As a result of this omission, Finance calculates that it understated the State's interest liability for this program by approximately \$16,000.

For the Immunization Grants program, which is not covered by the Treasury-State agreement, Health Services received excess federal cash. According to Health Services, while reconciling its federal awards, it discovered that it received approximately \$1.8 million more than the Immunization Grants program needed. However, because it did not inform the person responsible for requesting federal funds to use this excess before requesting additional funds, Health Services continued to draw federal funds for this program. As a result, our analysis of the federal cash balances for this program shows that the State earned at least \$58,000 in interest from these excess federal funds.

RECOMMENDATION

Health Services should continue to monitor its federal cash balances for each program and ensure that it requests only the federal cash necessary to meet its immediate program needs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the finding. Health Services states that it has in place a monthly analysis work sheet that it uses to determine cash needs for each federal grant award, which will prevent the request of excess federal cash.

U.S. DEPARTMENT OF AGRICULTURE

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

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Catalog Number: 93.268
Federal Program Title: Immunization Grants
Federal Award Number and
Calendar Year Awarded: H23/CCH904423-10-9; 1999

Reference Number: 2000-13-1
Category of Finding: Subrecipient Monitoring
State Administering Department: Department of Health Services

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

CRITERIA

Our review of federal programs 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), 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. If a subrecipient's audit report contains no findings related to the federal awards administered by the State, the subrecipient must so notify the State in writing. 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, 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) lacks an adequate system to ensure it promptly receives all audit reports from nonprofit subrecipients required to submit one and issues management decisions on reported findings. We reviewed Health Services' subrecipient monitoring for fiscal year 1999-2000 and found three

programs where it did not promptly receive all audit reports from nonprofit subrecipients and two programs where it did not issue the required management decisions. Specifically, Health Services' Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) did not receive audit reports from 2 of 42 nonprofit subrecipients, and 4 submitted their audit reports from 29 to 50 days late. Similarly, Health Services did not receive audit reports from 9 of 25 nonprofit subrecipients of the HIV Care Formula Grants program. Finally, for the Maternal and Child Health Services Block Grant to the States program, Health Services did not receive 8 of 32 nonprofit subrecipient audit reports and received 7 late; 1 was 7 days late and the other 6 were from 47 to 73 days late. However, because Health Services lacked a process to identify nonprofit subrecipients that spent \$300,000 or more in federal awards, it cannot be sure that audits were even required for these subrecipients that did not submit reports. Additionally, at the time of our review, Health Services had not issued the required management decisions within 6 months of receiving audit reports with findings for 1 of 14 WIC Program and 1 of 5 Maternal and Child Health Services Block Grant to the States program nonprofit subrecipients in our review.

Without an effective system to identify nonprofit subrecipients required to have audits and to track the prompt receipt of these required audit reports, Health Services cannot assure that its nonprofit subrecipients are meeting audit requirements and are spending program funds in accordance with applicable federal laws and regulations. Furthermore, when it does not issue decisions on audit findings affecting its programs, Health Services cannot assure that its nonprofit subrecipients are taking prompt and appropriate action to address audit findings.

RECOMMENDATION

Health Services should establish procedures for identifying nonprofit subrecipients that must have an OMB Circular A-133 audit performed. Additionally, it should ensure it obtains audit reports from nonprofit subrecipients required to submit a report and should promptly issue the required management decisions on audit findings that affect its programs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the finding and states that it has taken steps to implement the recommendations. According to Health Services, it has developed procedures for identifying nonprofit subrecipients required to submit audit reports, and procedures to ensure it receives these reports. Health Services states that it plans to work on a departmentwide solution for issuing the required management decisions on reported audit findings.

U.S. DEPARTMENT OF AGRICULTURE

Federal Catalog Number: 10.557
Federal Program Title: Special Supplemental Nutrition Program for
Women, Infants, and Children
Federal Award Number and
Calendar Year Awarded: 7F9003; 1998

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: 6X07HA00041-08; 1998
6X07HA00041-09; 1999

Federal Catalog Number: 93.994
Federal Program Title: Maternal and Child Health Services Block
Grant to the States
Federal Award Number and
Calendar Year Awarded: 6B04MC003363-03; 1998

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

Reference Number: 2000-13-2
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

Our review of federal programs 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), 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 9 months after the end of audit period for fiscal years beginning after June 30, 1998. For fiscal years beginning before June 30, 1998, subrecipients have 13 months to submit the audit reports. Further, Section 400(d) requires the State to ensure subrecipients meet the audit requirement and issue a management decision on audit findings within 6 months of receiving audit reports and make sure the subrecipients take appropriate and timely corrective action.

CONDITION

The Department of Education (Education) did not sufficiently monitor the audit reports of its nonprofit subrecipients. Education requires nonprofit subrecipients to submit certification forms to identify the subrecipients that annually spent more than \$300,000 in federal funds. However, for nine programs we reviewed, the department did not receive certification forms from 130 of 975 subrecipients stating the amount of federal funds they spent in the fiscal year 1998-99 audit period. Without these forms, Education could not determine which of these subrecipients had spent more than \$300,000 in federal funds and, therefore, were required to submit OMB Circular A-133 audit reports.

Additionally, Education did not ensure that all the subrecipients submitted the required audit reports. As of August 2000, Education had not received audit reports for the fiscal year 1998-99 audit period from 24 of 440 subrecipients that spent more than \$300,000 in federal funds. Further, Education did not receive 36 audit reports within

the required timeframe. Finally, Education did not review, within six months, 43 of the 416 audit reports it received. As a result, Education could not issue management decisions within six months, as required, or ensure timely corrective action on audit findings that could affect federal program funds.

RECOMMENDATION

Education should ensure that it receives the required certification forms from all its nonprofit subrecipients to identify those required to submit OMB Circular A-133 audit reports. In addition, Education should ensure that nonprofit subrecipients required to submit annual audit reports do so in a timely manner. Finally, Education should review the audit reports and issue management decisions as required.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education is in the process of replacing its audit data system. Education's current audit data system does not indicate all of the critical dates and information needed to effectively audit the receipt and processing of audit reports. Education currently uses information from the data system and manual procedures to ensure that all audit work is promptly completed. During the past 18 months, Education has completed its backlog of audit work.

Education has procedures in place to ensure that action is taken if annual certification forms or audit reports are not submitted by the due date. When a certification form or audit report is 30 days overdue, Education's Audits and Investigations Division (AID) notifies program staff that the required certification form or audit report has not been received. Thereafter, AID notifies program staff every month until the certification form or audit report has been received. Education's audit data system does not identify when AID has notified program staff. After notification by AID, program staff take immediate action to inform the subrecipient that it has not submitted the required form or report and that the subrecipient's participation is in jeopardy until the form or report is received.

For the 24 audit reports not received as of August 2000, Education subsequently received and completed its review of 13 audit reports. In addition, Education is conducting the audit of one subrecipient; one subrecipient received under \$300,000 in federal funds in 1998-99 and has no audit requirement; one subrecipient is a county government agency whose audit was submitted to the State Controller's Office for review; and four subrecipients were terminated from the program. Finally, AID notified program staff that four subrecipients did not submit their audit reports as required. Program staff are taking action to obtain the audit report and/or make the subrecipients ineligible to participate in the program.

Education received and completed its review of all 36 delinquent audit reports by August 31, 2000. For the 43 audit report reviews not completed within six months as required, Education noted that the audit data system does not identify when AID

completed its review of an audit report and issued a management decision. Instead, the audit data system provides the date of the audit close letter, which is subsequent to the date the management decision is issued. (Audit closure for child development audit reports requires a reconciliation of the actual program expenditures as reported in the audit report to the amount of funds claimed.) AID actually completed its audit reviews and issued management decisions within six months as required for 29 of the 43 audit reports.

U.S. DEPARTMENT OF AGRICULTURE

Federal Catalog Number: 10.550

Federal Program Title: Food Distribution

Year Awarded: State fiscal year 1998-99

Federal Catalog Number: 10.553

Federal Program Title: School Breakfast Program

Federal Award Number and
Calendar Year Awarded: 7N1030; 1998

Federal Catalog Number: 10.555

Federal Program Title: National School Lunch Program

Federal Award Number and
Calendar Year Awarded: 7N1005; 1998

Federal Catalog Number: 10.556

Federal Program Title: Special Milk Program for Children

Federal Award Number and
Calendar Year Awarded: 7N1039; 1998

Federal Catalog Number: 10.558

Federal Program Title: Child and Adult Care Food Program

Federal Award Numbers and
Calendar Year Awarded: 7N1019, 7N1020, 7N1042, 7N2014; 1998

Federal Catalog Number: 10.559
Federal Program Title: Summer Food Service Program for Children
Federal Award Numbers and
Calendar Year Awarded: 7N1032, 7N1034; 1998

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: V002A980006; 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

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: 1999 G999004, 1999 G999005; 1998

**U.S. DEPARTMENT OF LABOR
U.S. DEPARTMENT OF EDUCATION**

Reference Number: 2000-2-2

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

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

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

CONDITION

EDD lacked documentation supporting some of its payroll and operating costs allocated to federal programs. For 9 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 demonstrate that it revised the percentages quarterly to reflect more current circumstances, nor could it show it adjusted charges to federal programs to reflect actual activity. As a result of EDD's inability to support the basis of

its allocations, we could not determine whether EDD appropriately allocated nine payroll transactions and four operating costs totaling approximately \$489,000 among various state and federal programs. 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 1999-2000.

RECOMMENDATION

To ensure that charges to federal programs are appropriate, 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, that the estimates are revised at least quarterly to reflect any changes, and that the estimated costs are adjusted to reflect costs from actual activity.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

EDD concurs with the finding and has implemented a plan to document the percentages or the rate of distribution of costs to federal programs by its accounting codes. These codes automatically allocate costs to various federal programs. In addition, EDD will document the basis for calculating the percentages for new allocation codes. EDD also stated that it currently performs periodic reviews of the allocation codes; however, in the future it will perform a quarterly review to determine if changes in its 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 Services
Federal Award Number and Calendar Year Awarded:	T-0620599000; 1999

Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance
Federal Award Number and Calendar Year Awarded:	No award number; 1999

Federal Catalog Number: 17.250
Federal Program Title: Job Training Partnership Act
Federal Award Number and
Calendar Year Awarded: A-7351-9-00-87-50; 1999

Federal Catalog Number: 17.801
Federal Program Title: Disabled Veterans' Outreach Program
Federal Award Number and
Calendar Year Awarded: E-9-5-0-5085; 1999

Federal Catalog Number: 17.804
Federal Program Title: Local Veterans' Employment
Representative Program
Federal Award Number and
Calendar Year Awarded: E-9-5-0-5085; 1999

Federal Catalog Number: 17.253
Federal Program Title: Welfare-to-Work Grants to States and Localities
Federal Award Number and
Calendar Year Awarded: Y-7432-9-00-81-50; 1999

U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number: 84.278
Federal Program Title: School-to-Work State Implementation Grants
Federal Award Number and
Calendar Year Awarded: V278E70020; 1999

FEDERAL EMERGENCY MANAGEMENT AGENCY

Reference Number: 2000-9-4
Category of Finding: Suspension and Debarment
State Administering Department: Office of Emergency Services

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

CRITERIA

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

The Code of Federal Regulations, Title 44, Section 17.225(a) requires the Office of Emergency Services (Emergency Services) to ensure that it does not make sub-awards to any parties who are debarred, suspended, or otherwise excluded from participation in federal assistance programs. Additionally, Section 17.510(b) requires Emergency Services to obtain certifications that affirm participating parties are not presently debarred or suspended.

CONDITION

Emergency Services did not require Public Assistance Grants and Hazard Mitigation Grant program applicants to submit suspension and debarment certifications. When it does not require these certifications, Emergency Services runs the risk of allowing suspended or debarred parties to participate in the federal programs.

Emergency Services' position is that another federal regulation excludes all transactions for the Public Assistance Grants and Hazard Mitigation Grant programs from the suspension and debarment requirements. This regulation, from the Code of Federal Regulations, Title 44, Section 17.110(a)(2)(v), states that one of the exceptions for coverage under the suspension and debarment regulations is "transactions pursuant to national or agency-recognized emergencies or disasters." We contacted the Federal Emergency Management Agency's (FEMA) legal staff for an interpretation of how this regulation applies. The legal staff indicated that suspension and debarment requirements do not apply to the initial response to a disaster, but would apply to the later recovery transactions.

RECOMMENDATION

Emergency Services should require that all applicants submit signed suspension and debarment certifications before approving applications for federal program funds.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services disagrees with this finding and with the verbal interpretation given by FEMA counsel. Emergency Services' position is that Public Assistance and Hazard Mitigation response and recovery grants are exempt from the suspension and debarment requirement, in accordance with Code of Federal Regulations, Title 44, Section 17.110(a)(2)(v). The regulation contains no stipulation that exempt grants are limited to those funded during the initial response to a disaster.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Federal Catalog Number:	83.544
Federal Program Title:	Public Assistance Grants
Year Awarded:	State fiscal year 1999-2000

Federal Catalog Number:	83.548
Federal Program Title:	Hazard Mitigation Grant
Years Awarded:	State fiscal year 1999-2000

Reference Number:	2000-12-4
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

According to the Code of Federal Regulations, Title 44, Section 13.41(b), the State is required to use the financial status report form to report the status of funds for all nonconstruction grants. To meet this requirement for both the Public Assistance

Grants and Hazard Mitigation Grant programs, the Federal Emergency Management Agency (FEMA) requires the Office of Emergency Services (Emergency Services) to submit quarterly financial status reports for each disaster. According to FEMA's guidance, the status reports are to include total federal expenditures, total federal expenditures for administrative allowances, and total recipient expenditures.

CONDITION

Emergency Services' financial status reports contain unsupported expenditure information. As a result, FEMA cannot rely on these reports to accurately assess program status.

For 1 of the 16 quarterly financial status reports we reviewed, the expenditures Emergency Services reported did not agree to its accounting records. For this report, related to the 1990 June/July Wildland Fires, Emergency Services reported public assistance expenditures of \$3.2 million; however, its accounting records show expenditures of nearly \$4.4 million, or a potential underreporting of \$1.2 million. Emergency Services states that for older disasters, such as this one, its accounting system may contain errors. It therefore relies on manual records and other documents that it believes are more accurate to prepare this financial status report. However, because Emergency Services does not reconcile its federal financial reports to its official accounting records, it is not possible to determine the correct expenditures for this disaster.

In addition, Emergency Services does not separately account for and report its and the subrecipients' administrative costs. Instead, Emergency Services includes these expenditures with direct program expenditures, which results in an unknown overstatement of direct program expenditures. FEMA requires separate reporting of administrative expenditures so that it can accurately compute and analyze the shared costs of a disaster.

Finally, rather than basing its and the subrecipients' share of expenditures on information from its accounting records, Emergency Services inappropriately uses a formula to derive this amount. Emergency Services uses this formula because it does not completely track expenditure information from subrecipients. As a result, Emergency Services cannot assure that the amount of expenditures for subrecipients and itself that it reported to the federal government are accurate.

RECOMMENDATION

Emergency Services should ensure that its financial status reports are supported by its accounting records. Additionally, it should separately account for and report on administrative and subrecipient expenditures.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Before January 1999, FEMA required financial status reports to be filed upon closure of disasters, after final inspection and financial reconciliation of all subgrantee records. FEMA notified Emergency Services in January 1999 that financial status reports would be required on a quarterly basis for all disasters. Emergency Services has made several attempts to discuss with FEMA how best to report California disaster activity, which currently involve more than 35,000 individual projects, into a single, generic federal report format. In addition, Emergency Services has requested guidance on how to report the timing differences between expenditures and fund disbursement that are associated with federal regulatory requirements placed on the State. For example, in any given disaster as much as 30 percent of the disaster funds can be associated with small projects. In accordance with federal regulations, disaster funds for small projects are advanced to subgrantees at the time of approval; thus, disbursement occurs prior to any actual expenditures being incurred. Consequently, a quarterly report of on-going disaster activity will have some portion of federal disbursements without associated expenditures. Emergency Services will continue to seek an active dialogue with FEMA to reach consensus on how to report on-going disaster assistance activity without creating a burdensome workload.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Federal Catalog Number: 83.544
Federal Program Title: Public Assistance Grants
Year Awarded: State fiscal year 1999-2000

Federal Catalog Number: 83.548
Federal Program Title: Hazard Mitigation Grant
Year Awarded: State fiscal year 1999-2000

Reference Number: 2000-12-5
Category of Finding: Reporting
State Administering Department: Office of Emergency Services

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

CRITERIA

Our review of federal programs determined that the Code of Federal Regulations, Title 44, Section 13.20, requires the State to maintain accounting records to properly track and accurately report financial activities related to federal grants. 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 1999-2000, the Office of Emergency Services (Emergency Services) did not reconcile the receipts and disbursements reported in its federal cash transaction reports to its official accounting records. As a result, we could not determine that the receipts and disbursements reported in the quarterly federal cash transaction reports agreed with the Emergency Services' accounting records.

We reported a similar issue during our audit of fiscal year 1998-99.

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 1999-2000

Federal Catalog Number:	83.548
Federal Program Title:	Hazard Mitigation Grant
Years Awarded:	State fiscal year 1999-2000

Reference Number: 2000-13-7
Category of Finding: Subrecipient Monitoring
State Administering Department: Office of Emergency Services

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

CRITERIA

Our review of federal programs determined 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-128, *Audits of State and Local Governments* (OMB Circular A-128), 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 U.S. Office of Management and Budget Circular A-133 (which superseded OMB Circular A-128), *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133) raised the funding level at which audit reports are required to \$300,000, although the submission date for the reports remained unchanged.

For fiscal year 1998-99, the funding level remained the same, but the date required for submission of the reports was reduced to nine months after the end of the fiscal year. If an audit finds that a subrecipient has failed to comply with federal program requirements, OMB Circular A-133 also requires the State to make a management decision regarding the resolution of the audit finding within six 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 1999-2000, the State Controller's Office reviewed the annual audit reports of Emergency Services' subrecipients and forwarded seven findings to Emergency Services for resolution. However, Emergency Services did not follow up on any of the findings and did not issue a management decision. In addition, Emergency Services did not follow up on more than \$1.2 million of questioned costs related to annual audits as we reported in fiscal years 1997-98 and 1998-99. There were no questioned costs reported in fiscal year 1999-2000. Without an effective system to ensure prompt resolution of audit findings, Emergency Services cannot ensure that subrecipients are complying with federal laws and regulations.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Department of Finance has rejected two Emergency Services budget change proposals that included staff to ensure follow up and resolution of audit report findings. In November 2000, Emergency Services redirected vacancies to form a new unit whose workload will include the resolution of audit report findings forwarded by the State Controller's Office.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Federal Catalog Number:	83.544
Federal Program Title:	Public Assistance Grants
Years Awarded:	State fiscal years 1995-96 through 1999-2000

Federal Catalog Number:	83.548
Federal Program Title:	Hazard Mitigation Grant
Years Awarded:	State fiscal years 1998-99 and 1999-2000

U.S. DEPARTMENT OF EDUCATION

Reference Number: 2000-1-1

Federal Catalog Number: 84.181

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

Federal Award Number and Calendar Year Awarded: H181A980037; 1998

Category of Finding: Activities Allowed

State Administering Department: Department of Developmental Services

CRITERIA

Our review of the Special Education—Grants for Infants and Families with Disabilities program (Early Intervention) 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 the Early Intervention program. In addition, Section 80.20 requires that the State follow adequate procedures when expending and accounting for grant funds to ensure that the Early Intervention funds are used according to 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 program disbursements we reviewed, Developmental Services did not sufficiently review 3 disbursements totaling \$32,673 to assure that the expenditures were proper charges to Early Intervention. Services that the State Office of Administrative Hearings (OAH) provides are billed to Developmental Services and are paid through direct transfers by the state controller. While Developmental Services in response to our prior-year finding now obtains support for the charges from the OAH, it does not review these invoices against activity reports from the OAH to ensure that the billing included only activities related to Early Intervention. Without reviewing and approving these invoices, Developmental Services risks paying for services that are unallowable.

RECOMMENDATION

Developmental Services should develop and implement procedures to review and approve invoices to ensure it pays only for costs properly chargeable to Early Intervention.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The following procedures are used by Developmental Services for approving Early Start direct transfer invoices from the Department of General Services (DGS) for services performed by the Office of Administrative Hearings (OAH).

The DGS submits to Developmental Services monthly direct transfer invoices for OAH billings with supporting documentation. The supporting documentation consists of the following two reports:

1. A list of each early intervention (Early Start) case (agency code 75) by consumer's name and the corresponding Administrative Law Judge's (ALJ) hours claimed for working on the consumer's case.
2. A list of the early intervention cases (agency code 75) filed for the month.

When Developmental Services' Early Start analyst receives DGS' monthly direct transfer invoice for the OAH billing, the analyst verifies that the number of cases filed and the number of ALJ hours charged, as indicated on the invoice, are substantiated by the supporting documentation.

When all billings have been verified, Developmental Services' Early Start analyst writes on the invoice "Reviewed by _____ (Name) _____, supporting documents received", and enters "the date". "Confidential" is then stamped on each page of the invoice and supporting documentation and a complete copy is made. The originals are filed in the OAH interagency agreement folder and the copy is given to Developmental Services' Community Program Specialist responsible for the OAH database.

Reference Number:	2000-1-2
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families with Disabilities
Federal Award Number and Calendar Year Awarded:	H181A990037; 1999
Category of Finding:	Activities Allowed
State Administering Department:	Department of Education

CRITERIA

Our review of the Special Education—Grants for Infants and Families with Disabilities program (Early Intervention) identified the following requirements for activities allowed:

The Code of Federal Regulations, Title 34, Section 303.3, describes the activities that can be funded by 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 according to applicable statutes.

CONDITION

The Department of Education (Education) did not ensure that it disbursed Early Intervention program funds for allowable purposes when it paid several subrecipients 75 percent of their individual grant awards without receiving and approving their applications. The applications include budgets and descriptions of activities for which program funds will be used. However, 6 of the 40 subrecipients we reviewed had not submitted their applications as of August 2000. Education paid these subrecipients \$698,400 in April 2000. Without reviewing applications prior to making payments, Education cannot assure that subrecipients are spending program funds for allowable purposes.

RECOMMENDATION

Education should ensure that no program funds are disbursed without the proper review and approval of applications.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education will reevaluate its administration of the Early Intervention program to identify areas where improvement can be made to ensure that program applications are approved prior to making payments.

Reference Number: 2000-1-3
Category of Finding: Activities Allowed
State Administering Department: Department of Education

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

CRITERIA

Our review of the Special Education—Grants to States and Special Education—Preschool Grants programs found the following requirements related to activities allowed:

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

CONDITION

The Department of Education (Education) did not ensure that it disbursed Special Education—Grants to States and Special Education—Preschool Grants program funds for allowable purposes. Of the 40 subrecipient files we reviewed, Education paid one subrecipient \$10 million for its fiscal year 1999-2000 grant even though the subrecipient did not have an approved local plan for the period. Although we found no evidence that Education paid the subrecipient for unallowable activities, Education runs the risk of doing so if it disburses funds to a subrecipient without an approved local plan.

RECOMMENDATION

Before it disburses funds, Education should ensure that each subrecipient of its Special Education—Grants to States and Special Education—Preschool Grants programs has an approved local plan.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education was late in approving the local plan for the San Diego City Unified School District (San Diego) in the appropriate four-year local plan cycle. When Education submitted the plan to the State Board of Education (State Board) for approval, San Diego's plan got caught up in the California Reading Initiative issue and the State Board only approved a one-year extension, until June 30, 1999. At the time the San Diego plan was submitted, Education had already moved into processing of local plans in another of its cycles. Inadvertently, San Diego's local plan was lost in the tracking and monitoring of the California Reading Initiative amendment for the local plans in the other cycles. Education believes this finding was a one-time-only timeline oversight. Education has initiated procedures to ensure that each local plan is approved before Education disburses funds.

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: H027A990116; 1999

Federal Catalog Number: 84.173

Federal Program Title: Special Education—Preschool Grants

Federal Award Number and
Calendar Year Awarded: H173A990120; 1999

Reference Number:	2000-2-3
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—Basic State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A990005; 1999
Category of Finding:	Allowable Costs and Cost Principles
State Administering Department:	Department of Education

CRITERIA

Our review of the Migrant Education—Basic State Grant Program (Migrant Education) identified the following compliance requirement related to allowable costs:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (OMB Circular A-87), Attachment A, Section (C) states that for costs to be allowable under a federal award, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards.

CONDITION

The Department of Education (Education) approved the use of \$66,000 in Migrant Education funds without determining whether they are reasonable as required by OMB Circular A-87. Education used the funds to pay for vehicle leases, insurance, and maintenance in two of its regions and for a vehicle purchase in a third region. In addition, Education did not follow its own policy, which requires it to approve vehicle leases or purchases only if program subrecipients can show it is more cost-effective to lease or purchase vehicles than to reimburse individuals who drive their personal vehicles on Migrant Education business.

RECOMMENDATION

Education should ensure that it approves only allowable costs that are reasonable and necessary to perform the program. Additionally, it should follow its program policy for the approval of vehicle leases or purchases.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Vehicle leases and purchases are approved prior to the actual lease or purchase if the subrecipient can show that the lease or purchase is more cost effective than to pay mileage. Documentation of the lease or purchase is in the original application. Education is researching its archived files to obtain the original approval document for each of the three regions. In the future, Education staff will notate on each budget approval document when the lease or purchase was originally approved.

Reference Number:	2000-2-4
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—Basic State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A990005; 1999
Category of Finding:	Allowable Costs and Cost Principles
State Administering Department:	Department of Education

CRITERIA

Our review of the Migrant Education—Basic State Grant Program (Migrant Education) identified the following compliance requirement related to allowable costs:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (OMB Circular A-87), Attachment A, Section (C) states that for costs to be allowable under a federal award, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards.

CONDITION

The Department of Education (Education) approved the use of \$37,900 in Migrant Education funds during fiscal year 1999-2000 that may not be an efficient use of resources as required by OMB Circular A-87. Education is required to report the number of migrant children in California eligible for the program. To assist its reporting, Education's 23 Migrant Education regions enter data about eligible migrant children into a computer system. The data is transmitted to a vendor who combines the data from all the regions, ensures that migrant children are not counted more than once, and prepares a report identifying the number of eligible migrant children.

Education administers the contract with the vendor. However, one of its regions also administers contracts with other vendors to provide software and technical assistance related to developing the count data in the 23 regions. These latter contracts appear to be more appropriately administered by Education rather than one of its Migrant Education regions. According to Education, it intended the process it uses to be an interim solution until it developed and implemented a new system to meet its mandated reporting responsibilities under the federal program. However, by using one of its regions to administer the contracts, Education may be incurring costs for the Migrant Education program that it would not incur otherwise.

Specifically, Education approved \$27,200 in overhead costs for the region to oversee two contracts the region entered into with vendors. Additionally, Education approved the region's use of nearly \$10,700 to provide project assistance and administration to the vendors, other regions, and staff and agencies involved in the two contracts. Although the services appear to be an appropriate use of Migrant Education funds, the additional costs paid by Education to the region for administering these contracts may not be necessary for the proper and efficient performance and administration of the program.

RECOMMENDATION

Education should ensure that it approves only costs that are necessary for the proper and efficient performance and administration of the Migrant Education program.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

In 1994, the Migrant Education program was reauthorized under the Improving America's Schools Act (IASA). The most significant change for Migrant Education under IASA was the elimination of the U.S. Department of Education's (USDE) National Migrant Student Record Transfer System, which coordinated the transfer of migrant pupil data from each state. Under IASA, Education is required to identify and recruit migrant pupils; collect and report annually the number of migrant pupils to USDE; provide a mechanism for locating migrant pupil records from their prior schools; facilitate the transfer of pupil records between local educational agencies; identify those pupils most at risk of failure so that funds can be targeted to services for those pupils; and demonstrate the impact of the Migrant Education program on pupils receiving program services.

Education's funding for fiscal year 1997-98 decreased by \$8,000,000 based on the migrant pupil count reported by Education to USDE. It became obvious to Education and California Migrant Education leaders and directors that Education needed assistance in accurately and completely gathering and reporting migrant pupil information in California. In 1997, Education entered a contract with WestEd to obtain assistance in gathering migrant pupil data. In addition, at the recommendation of the Migrant Education Directors and the State Migrant Parent Advisory Councils, Education contracted with the Monterey County Office of Education to acquire the

services of Tromik Technology Corporation (Tromik, USDE's vendor and owner of the migrant pupil data collection software license). Tromik provides the software and the delivery of services for the Migrant Education Regional Operational System and technical assistance to the current 22 Migrant Education regions.

Education has proposed a sole source contract to directly secure the services of Tromik. When the sole source contract is approved, Education's contract with the Monterey County Office of Education will be terminated.

Education's goal is to own the Migrant Education Program Student Information System for California. In September 1997, Education initiated a contract with the International Networks System to develop a Feasibility Study Report (FSR) for the student information system; however, International Networks System was unable to complete the FSR. Therefore, in 1998, Education entered a contract with Deloitte and Touche, Inc. and an FSR was completed. Currently, California's Department of Information Technology is reviewing the FSR. When approved, the FSR will be submitted to the Department of Finance for its approval. Upon final state approval, Education will solicit requests for proposals and eventually select a contractor to manage California's Migrant Education Program Student Information System. The contract services of WestEd and Tromik will then be terminated.

Reference Number:	2000-3-1
Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A990005; 1999
Category of Finding:	Cash Management, Subrecipient Monitoring
State Administering Department:	California Community Colleges, Chancellor's Office

CRITERIA

Our review of the Vocational Education—Basic Grants to States program (Vocational Education) 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 program 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 14 of the 30 subrecipients we reviewed maintained high ending cash balances ranging from \$5,800 to \$352,700 for one or more quarters. We considered balances high when they exceeded 10 percent of the subrecipients' award.

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 of the year, although we found that one of the Vocational Education subrecipients had not spent all the program funds by the last quarter. However, 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 Vocational Education subrecipients' use of the funds. The Chancellor's Office uses these same expenditure reports to monitor the subrecipients. However, for 27 of the 30 subrecipients we reviewed, the Chancellor's Office either did not review at least one of the required quarterly reports or we could not confirm that it had assessed the subrecipients' use of the funds because its files were missing one or more of the reports.

RECOMMENDATION

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 in its files. Finally, to minimize the time between the receipt and use of Vocational Education program funds, the Chancellor's Office should adjust its payments to more closely reflect the subrecipients' reported use of the funds.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Beginning in April 2001, all subrecipient files will have a checklist of all necessary documentation needed to have a complete file. A Vocational Education Services Team member will have the responsibility of maintaining a database of reports received and for ensuring that all files are complete. The current year's files (2000-01) will be reviewed for any missing documentation and subrecipients will be contacted if there are reports missing, and the files for the next year (2001-02) will be formatted to ensure that files are complete on an ongoing basis.

The 2000-01 Vocational and Technical Education Assistance (VTEA) Title IC funds (Secondary, Postsecondary, and Adult Vocational Education) were originally apportioned based upon 70 percent of the total grant award. The Chancellor's Office compared each district's first quarter expenditures with their first quarter apportionment. As a result of the analysis, four districts were released into an 84 percent apportionment schedule. The Chancellor's Office is in the process of analyzing the second quarter expenditure reports in the same fashion. Beginning in 2001-02, an additional mechanism will be put into place that will decrease the amount of funds that the Chancellor's Office will apportion to a subrecipient, if expenditures are not within 90 percent of the apportionment for that same period of time.

Beginning in 2001-02, the same two mechanisms will be put into place for the VTEA Title IB funds (state programs and state leadership activities) that are placed in the same apportionment schedule.

In addition, during the 2000-01 third quarter, a Year-to-Date Expenditure form will be piloted that will automatically calculate the percentage of funds that the district has expended.

These steps should serve as an incentive for districts to report expenditures in an expedient fashion.

Reference Number:	2000-3-2
Federal Catalog Number:	84.243
Federal Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A990076; 1999
Category of Finding:	Cash Management
State Administering Department:	California Community Colleges, Chancellor's Office

CRITERIA

Our review of the Tech-Prep Education program (Tech-Prep) identified the following requirement for cash management:

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.

CONDITION

The Chancellor's Office lacks adequate procedures to ensure subrecipients of the Tech-Prep program minimize the time elapsing between the receipt and use of federal program 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 the payments and expenditures reported by subrecipients of the Tech-Prep program found that all five of the subrecipients we reviewed had high ending cash balances ranging from \$13,200 to \$216,300 for the first three quarters of the fiscal year. We considered balances high when they exceeded 10 percent of the subrecipients' award.

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 of the year. Nevertheless, 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.

RECOMMENDATION

The Chancellor's Office should ensure its subrecipients promptly post and report their actual expenditures of program funds. Additionally, 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

In training for subrecipients, the Chancellor's Office is re-emphasizing the importance of promptly posting and reporting actual expenditures of program funds. Additionally, the Chancellor's Office has adjusted payments to more closely reflect subrecipients' reported use of federal funds.

Reference Number:	2000-3-3
Federal Catalog Number:	84.186
Federal Program Title:	Safe and Drug-Free Schools and Communities—State Grants
Federal Award Number and Calendar Year Awarded:	S186B980005; 1998
Category of Finding:	Cash Management, Subrecipient Monitoring
State Administering Department:	Department of Alcohol and Drug Programs

CRITERIA

Our review of the Safe and Drug-Free Schools and Communities—State Grants program identified the following compliance requirements related to cash management and subrecipient monitoring:

The Code of Federal Regulations, Title 34, Section 80.20(b)(7), requires the Department of Alcohol and Drug Programs (DADP) and its subrecipients to have procedures for minimizing the time between the receipt and disbursement of federal funds whenever the subrecipients receive advance payments. It further requires DADP to monitor cash drawdowns by its subrecipients to assure that they conform substantially to the same standards of timing and amount that also apply to its advances. In addition, Section 80.40(a), requires DADP to monitor subrecipient activities to assure they comply with applicable federal requirements and meet performance goals.

CONDITION

DADP lacks adequate procedures to ensure subrecipients of the Safe and Drug-Free Schools and Communities—State Grants program minimize the time elapsing between receipt and use of program funds. In addition, it does not sufficiently monitor the subrecipients' use of the funds.

DADP awards subgrants to counties and other subrecipients to carry out the program's activities. In accordance with state law, it makes monthly payments to counties regardless of the actual expenditures. DADP does not require the counties to submit invoices to support the monthly payments. In addition, although DADP requires the counties to submit fiscal year-end expenditure data, it does not require them to submit interim expenditure reports. As a result, DADP cannot ensure that subrecipients minimize the time between the subrecipients' receipt and use of federal funds throughout the year. Our review of fiscal year 1998-99 year-end reports revealed that DADP paid to 1 of 27 counties \$45,000 more than the county actually spent on the program. The county reimbursed DADP for the overpayment in December 1999, six months after the year's end.

Additionally, DADP could not demonstrate that it sufficiently monitored its subrecipients' use of funds. Although DADP indicated that it performs site visits of its subrecipients other than counties, it does not document these efforts. Further, DADP does not perform any site visits to monitor the counties' compliance with federal regulations. As a result, DADP cannot be assured its subrecipients are performing tasks that conform to federal regulations and meet performance goals.

RECOMMENDATION

DADP should require counties to submit support for monthly payments and it should obtain interim expenditure reports from them. In addition, DADP should review its disbursement process to the counties to ensure that cash management requirements are met. Further, DADP should implement a policy to ensure that all of its site-visit efforts and results are documented. Finally, it should implement monitoring procedures to ensure the counties comply with federal regulations and meet performance goals.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

In April 1999, DADP commenced the implementation of processes and procedures to track obligations and expenditures for individual grant awards. The implementation of such processes and procedures commenced July 1, 2000. As part of such processes and procedures, DADP has required each county to submit a Quarterly Federal Financial Management Report (Report). The Report will enable DADP to compare county expenditure data to payments.

In lieu of focusing on one federal grant, DADP plans to review its processes and procedures for monitoring all its federal grants.

Reference Number:	2000-3-4
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—Basic State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A990005; 1999
Category of Finding:	Cash Management, Subrecipient Monitoring
State Administering Department:	Department of Education

CRITERIA

Our review of the Migrant Education—Basic State Grant Program (Migrant Education) determined that the following compliance requirements related to cash management and subrecipient monitoring:

The Code of Federal Regulations, Title 34, Section 80.20(b)(7), requires the Department of Education (Education) and its subrecipients to have procedures for minimizing the time between the receipt and disbursement of federal funds whenever subrecipients receive advance payments. In addition, Section 80.40(a) requires Education to monitor subrecipient activities supported by federal program funds to ensure that they comply with applicable federal requirements and meet performance goals.

CONDITION

Education lacks adequate procedures to ensure that Migrant Education program subrecipients 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.

Education allocates program funds to subrecipients in four payments. Additionally, Education requires subrecipients to submit program expenditure reports before it approves each of the last three payments. However, Education has not updated its allocation procedures in the last 13 years to ensure they are adequate to satisfy program needs and cash management requirements. In addition, Education approved and disbursed funds to 1 of 23 subrecipients even though it had not received a required expenditure report. Moreover, it does not compare the reported expenditures with amounts advanced to determine if additional advances are warranted.

Our review of payments to Migrant Education subrecipients and their reported expenditures revealed that 14 of the 15 subrecipients we reviewed had high ending cash balances ranging from \$56,000 to \$3.1 million for the first half of the subrecipient award period. We considered balances high when they exceeded 10 percent of the subrecipient award. Although 13 of the 14 subrecipients reported they spent nearly all the program funds they received by the end of the award period, Education is responsible for ensuring that subrecipients minimize the time between the subrecipients' receipt and use of Migrant Education funds throughout the year.

Additionally, Education has not sufficiently monitored its subrecipients' use of the funds. Education conducts fiscal reviews of subrecipients at the fiscal year-end. Fiscal reviews include the analysis of program expenditures and reviews of internal controls to determine if subrecipients comply with federal program requirements. Its goal is to conduct the reviews of its 23 subrecipients over a four-year period. However, as of May 2000 Education had conducted only 7 fiscal reviews in three years. As a result, Education cannot ensure that its subrecipients' use of program funds complies with federal requirements and meets performance goals.

RECOMMENDATION

Education should review its allocation procedures to determine if they are adequate to satisfy program needs and cash management requirements. Additionally, Education should ensure it receives and reviews the required subrecipient expenditure reports before it makes payments to its subrecipients. To minimize the time between the receipt and use of federal funds, it should adjust its payments to more closely reflect the subrecipients' reported use of Migrant Education funds. Finally, Education should conduct more timely fiscal reviews of its Migrant Education subrecipients to ensure they comply with federal program requirements and meet performance goals.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education will review its allocation procedures to determine if they are adequate to satisfy program needs and cash management requirements while ensuring that the time between receipt and use of federal funds is minimized.

Reference Number:	2000-5-1
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

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

The Code of Federal Regulations, Title 34, Section 361.42, requires the State to conduct an assessment for determining an individual's eligibility and priority for program services. This section further requires the State to base the individual applicant's eligibility only on a determination that (1) the individual has a physical or mental impairment; (2) the impairment substantially impedes employment; (3) a presumption that the individual can benefit from program services; and (4) the individual requires program services to prepare for, secure, retain, or regain employment.

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

CONDITION

The Department of Rehabilitation (department) does not always determine applicant eligibility within the required time period and did not document how it determined eligibility for one of the applicants we reviewed. We reviewed 40 applicant case files and found that in 16 cases the department failed to determine the eligibility of an applicant within 60 days or within the time period the department and the applicant agreed on when an eligibility determination extension was used. In four cases, the department was fewer than 5 days late, and in another two cases the department was between 5 and 30 days late. Seven of the cases were between 31 and 60 days past due, and the remaining 3 were 71, 98, and 172 days late, respectively. These tardy determinations occurred because although the department has the ability to provide district office managers with information on applications that are approaching the deadline for eligibility determinations, it does not do so. When the department does not determine an applicant's eligibility within the required time period, it reduces the assurance that clients receive the required rehabilitative services promptly.

Additionally, in one other case, the department did not document how it determined that an applicant was eligible for program services. Although the department provided program services to the applicant, it did not document its assessment for determining the applicant's eligibility for receiving these services. When the department does not document its assessments for determining applicant eligibility, it cannot demonstrate that it is providing program services only to those eligible to receive them.

RECOMMENDATION

To make sure applicants receive program services promptly, the department should determine eligibility within the required time period. One approach would be for the department to look for "best practices" at its districts to determine what tools they use to approve applications within the required time period, identify the best, and share them with all districts. Also, to help ensure that the department determines eligibility timely, the department should develop reports, such as aging reports, that show which applications are approaching the eligibility determination deadline. The department should provide these reports to supervisors and managers, as necessary, to raise the visibility of problem areas and help them improve the services the department provides to applicants.

To help ensure that the required assessments for determining applicant eligibility are appropriately documented in the case files, the department should require supervisors to review and approve case files at certain milestones, such as when the department determines applicant eligibility.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The department generally agrees with our finding. The department states that it will consider our recommendations as part of its continuing efforts to redesign and improve the entire vocational rehabilitation process. According to the department, our recommendation to explore new approaches and seek out best practices is consistent with its recent efforts to redesign and improve the overall quality of services. Department work groups, established under the redesigning effort, will evaluate and consider our specific recommendations. Initial work group recommendations related to management reports are expected by May 2001.

Reference Number:	2000-8-1
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:	Period of Availability
State Administering Department:	Department of Developmental Services

CRITERIA

Our review of the Special Education—Grants for Infants and Families with Disabilities program (Early Intervention) found the following compliance requirements related to period of availability:

The Code of Federal Regulations, Title 34, Section 80.23(a), states that a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period. Also, U. S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 42, states that any excess costs over the federal contribution under one award agreement are unallowable under other award agreements. Furthermore, the Code of Federal Regulations, Title 34, Section 76.703(h), states that the U. S. Department of Education will inform the State of the date on which it could begin to obligate funds. The time period that the funds are available to be obligated are stated on the grant award notification letter.

CONDITION

The Department of Developmental Services (Developmental Services) inappropriately charged costs against an Early Intervention award for obligations that occurred before the award was available for expenditure. Specifically, although the 1997 federal award for Early Intervention specifies the funding period as July 1, 1997, through September 30, 1998, Developmental Services paid two claims using funds from this award for services that were provided before July 1, 1997. Developmental Services should have charged these costs to the previous award, however, it had exhausted the funds from this award by the time the claims were submitted for reimbursement. As a result, Developmental Services inappropriately charged \$23,426 against the 1997 award. Although Developmental Services monitors the total cost charged to each award, it does not always ensure that costs charged to each award are within the award's period of availability. Thus, it risks incurring costs that the federal awarding agency may later disallow.

RECOMMENDATION

Developmental Services should establish procedures to ensure that only appropriate costs are charged to each Early Intervention award. In addition, Developmental Services should adjust its charges to the 1997 award to exclude the costs that are outside the award's period of availability.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The following procedures are used by Developmental Services to ensure that costs are properly charged within an award's period of availability:

Developmental Services' Early Intervention analyst reviews the billing period of each invoice received and approves the invoice for payment only if it is received within the specific Part C grant award's period of availability related to the billing period.

In addition, to ensure that all claims are processed within the period of availability, Developmental Services sends a letter to the subrecipients informing them of the final date Developmental Services must receive their invoices to process their claim within the period of availability.

In response to the recommendation that Developmental Services make an adjustment to the costs charged inappropriately to the 1997 federal award for Early Intervention, as concurred by its accounting section chief, we are unable to adjust the charges to the 1997 award. The charges, totaling \$23,426, should have been charged to a prior year federal award, however, the period of availability for all federal awards prior to 1997 are closed. There is not a feasible way to make this adjustment. With the above procedures now in place, Developmental Services can provide assurance that charging costs inappropriately should not happen again.

Reference Number:	2000-9-1
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families with Disabilities
Federal Award Number and Calendar Year Awarded:	H181A990037; 1999
Category of Finding:	Suspension and Debarment
State Administering Department:	Department of Education

CRITERIA

Our review of the Special Education—Grants for Infants and Families with Disabilities program (Early Intervention) identified the following requirements for suspension and debarment:

The Code of Federal Regulations, 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, 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 Early Intervention program. Specifically, it did not have certifications for 3 subrecipients in our sample of 40. Although we found no evidence that any of the participants were suspended or debarred from participating in the program, without adequate controls, Education runs the risk of this happening.

RECOMMENDATION

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

Education has suspension and debarment certifications on file for the three subrecipients identified in the audit finding. Education received certification from the El Dorado County Office of Education on August 25, 2000; from the Glenn County Office of Education on September 4, 2000; and from the Marin County Office of Education on September 12, 2000.

Reference Number:	2000-9-2
Federal Catalog Number:	84.243
Federal Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A990076; 1999
Category of Finding:	Suspension and Debarment
State Administering Department:	California Community Colleges, Chancellor's Office

CRITERIA

Our review of the Tech-Prep Education program (Tech-Prep) 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 sub-awards 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 receive the required suspension and debarment certifications from all participants in the Tech-Prep program. Specifically, we found that for 2 of the 15 subrecipients we reviewed, the Chancellor's Office had not received signed 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 it receives the required suspension and debarment certifications from all Tech-Prep participants before approving contracts for funding.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Chancellor's Office is working to implement procedures to receive suspension and debarment certifications before approving contracts for funding.

Reference Number:	2000-12-2
Federal Catalog Number:	84.278
Federal Program Title:	School-to-Work State Implementation Grants
Federal Award Number and Calendar Year Awarded:	V278E70020; 1996
Category of Finding:	Reporting
State Administering Department:	Employment Development Department

CRITERIA

Our review of the School-to-Work State Implementation Grants (School to Work) program determined that the following are among the compliance requirements for reporting:

The Code of Federal Regulations, Title 34, Section 80.20(b)(1), requires the State to maintain a financial management system to provide accurate, current, and complete disclosure of the financial results of activities that are federally funded. Further, the U.S. Department of Education's School to Work Grants Reference Guide, Section II.A, requires grant recipients of the School to Work program to submit quarterly financial status reports.

CONDITION

The Employment Development Department's (EDD) June 30, 2000, quarterly financial status report that it submitted to the U.S. Department of Education was incomplete. Specifically, because it had not received progress reports from at least 10 of its

School to Work subrecipients by the established deadline, EDD's quarterly report understated program expenditures by nearly \$1.1 million. When EDD does not report current and complete information in the financial status reports, the U.S. Department of Education cannot adequately monitor the School to Work program.

RECOMMENDATION

To ensure that it submits financial status reports that are accurate and complete, EDD should emphasize to all of its School to Work subrecipients the importance of submitting their progress reports by the established deadline.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

EDD concurs with this finding and states that it has established a system to improve reporting performance. Specifically, the School-to-Career subgrant recipients are given sufficient advance notice of reporting deadlines. EDD is cataloging received reports to better track and follow up on overdue reports. There is also better coordination between the program office and Fiscal Programs Division in ensuring proper and timely expenditure report data entry and verification. The program manager reports that, as a result of the implementation of corrective action, 95 percent of the reports were received for reporting quarter ending December 31, 2000, a substantial improvement from the condition observed during the Single Audit.

Reference Number:	2000-12-3
Federal Catalog Number:	84.186
Federal Program Title:	Safe and Drug-Free Schools and Communities—State Grants
Federal Award Numbers and Calendar Years Awarded:	S186A50136; 1995 S186A60136; 1996 S186B70005; 1997
Category of Finding:	Period of Availability, Reporting
State Administering Department:	Department of Alcohol and Drug Programs

CRITERIA

Our review of the Safe and Drug-Free Schools and Communities—State Grants program found the following requirements related to the period of availability and reporting:

The Code of Federal Regulations, Title 34, Section 76.709(a), mandates that if the State does not commit all of its grant funds by the end of the fiscal year for which they were appropriated, the State may commit the remaining funds for one additional year. In addition, Section 80.23(b) requires the State to liquidate all obligations incurred under an award no later than 90 days after the end of the funding period, which means the State has two years and three months to liquidate its obligations.

The U.S Office of Management and Budget Circular A-133, *Compliance Supplement*, states that the U.S. Department of Education (USDE) considers drawn funds to have been expended by a grantee for the awards identified. It further states that the cumulative draw amounts in its Grant Administration and Payment System (GAPS) should accurately reflect the grantee's actual disbursement of funds by award. Lastly, it states that the grantees can distribute drawn amounts between grant awards by making adjustments in GAPS to reflect actual disbursements for each award.

CONDITION

The Department of Alcohol and Drug Programs (DADP) spent \$2,562,167 of Safe and Drug-Free Schools and Communities—State Grants program funds after the periods of availability for three of its grants ended. Additionally, it does not have adequate controls to ensure that its requests for federal funds agree with the grant expenditures for the program.

Specifically, according to DADP's accounting records, it made payments totaling \$2,557,100 for obligations incurred after the periods of availability—\$1,680,826 from the fiscal year 1995-96 grant, \$839,190 from the fiscal year 1996-97 grant, and \$37,084 from the fiscal year 1997-98 grant. In addition, after the period of availability ended for the fiscal year 1997-98 grant, DADP paid \$5,067 for expenditures incurred within the period of availability. The grant award notifications DADP received from USDE for each of the grants stipulated the proper periods of availability, which were two years and three months.

Additionally, DADP needs to improve its controls to ensure that its requests for federal funds agree with the grant expenditures. DADP uses GAPS to draw federal funds from the federal treasury for the program. Using the first-in first-out method, it draws funds from the oldest available grant regardless of the grant for which the expenditures were incurred. Although USDE allows this method, DADP does not reconcile its accounting records to GAPS to ensure that the expenditures agree with the drawdowns. As a result, for the fiscal year 1997-98 grant DADP's accounting

records indicate it drew \$2,438,324 in excess of the expenditures it reported, which may be related to the \$2,562,167 identified previously. It had not refunded any of these funds to the federal awarding agency as of December 2000.

RECOMMENDATION

DADP should ascertain that expenditures of the Safe and Drug-Free Schools and Communities—State Grants program are applied appropriately and only pay from program funds the obligations that occurred during the period of availability. Additionally, DADP should reconcile its accounting records to GAPS regularly. Further, it should refund to USDE any Safe and Drug-Free Schools and Communities—State Grants program funds in excess of its reported program expenditures.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

DADP is implementing processes and procedures to enable it to track obligations and expenditures by individual federal grant award. The implementation process started in April 1999 with the convening of the Grants Tracking Workgroup (Workgroup). DADP started implementing the processes and procedures, which were developed by the Workgroup, commencing July 1, 2000. The implementation of the processes and procedures will ensure that expenditures of Safe and Drug-Free Schools and Communities Act grant funds are for obligations incurred within the funding periods.

Reference Number:	2000-13-3
Federal Catalog Number:	84.340
Federal Program Title:	Class Size Reduction
Federal Award Number and Calendar Year Awarded:	S340A990047; 1999
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education

CRITERIA

Our review of the Class Size Reduction program identified the following requirements for subrecipient monitoring:

The Code of Federal Regulations, Title 34, Section 80.40(a), requires the Department of Education (Education) to monitor subrecipient activities supported by federal program funds to ensure they comply with applicable federal requirements.

In addition, 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

Education does not adequately monitor either its subrecipients' use of Class Size Reduction program funds or their activities. During fiscal year 1999-2000, Education awarded Class Size Reduction funds totaling approximately \$129.2 million to 966 local educational agencies (LEAs). However, Education has not developed and implemented procedures to monitor the activities of the LEAs or their use of Class Size Reduction funds. As a result, Education cannot ensure that the LEAs' activities and use of Class Size Reduction funds comply with federal laws and regulations.

RECOMMENDATION

Education should develop and implement an effective monitoring strategy for the Class Size Reduction program that provides assurance that LEAs' activities and their use of program funds comply with federal requirements.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

This audit was conducted prior to the close of the first full fiscal year of the program. Since first receipt of Class Size Reduction program funds, Education has been exploring with the U.S. Department of Education options for monitoring LEA expenditure of Class Size Reduction funds with Education's limited resources. Education receives no federal funds for state administration of the Class Size Reduction program. Education currently reviews all of the program and budget proposals of subrecipients and provides technical assistance and training to subrecipients. Education will continue to evaluate the feasibility of various additional monitoring options, such as requiring that subrecipients submit interim expenditure reports for review prior to issuance of final funding and conducting a limited number of on-site reviews of subrecipients each year.

Reference Number: 2000-13-4
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

Our review of federal programs identified that 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*, 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. Additionally, this section requires that the State ensure that the subrecipient takes appropriate and timely corrective action.

CONDITION

The Department of Education (Education) has not fully implemented a subrecipient monitoring system necessary to ensure that subrecipients of the Special Education—Grants to States program and the Special Education—Preschool Grants program use federal grant money only for authorized purposes and take appropriate and timely corrective action on any deficiencies found. During fiscal year 1999-2000, Education implemented a focused monitoring system intended to take the place of its Coordinated Compliance Review site visits, which it discontinued for these programs in fiscal year 1998-99. One component of the focused monitoring system is the verification site reviews, which are intended to address subrecipients' compliance with federal laws and regulations as well as state program requirements.

During fiscal year 1999-2000, Education performed 54 verification site reviews. Although Education conducted site visits and developed findings and preliminary corrective actions, because of the delay in the implementation of the focused monitoring system, it is too early to evaluate the effectiveness of these efforts to ensure compliance with federal regulations.

RECOMMENDATION

Education should continue its efforts to monitor the subrecipients to ensure compliance with federal regulations.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education monitors local educational agencies in a variety of ways—verification reviews are only one way. It is important to note that in addition to onsite verification reviews, Education collects and analyzes student-level data through the California Special Education Management Information System, collects and analyzes compliance self-reviews from one-fourth of the local educational agencies each year, and collects and evaluates special education policies and procedures from one-fourth of the Special Education Local Plan Areas (SELPAs) each year. Each of these additional methods is used to identify noncompliance and results in the request for corrective action plans from local educational agencies and SELPAs.

In fiscal year 1999-2000, Education completed 54 verification reviews that resulted in 53 corrective action plans. These corrective action plans required school districts to correct deficiencies in services to individual children as well to correct policies, procedures and activities that it found to be out of compliance. Education staff are conducting follow-up visits to each of the 53 school districts with corrective action plans to resample student records to ensure corrective action has taken place.

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: H027A990116; 1999

Federal Catalog Number: 84.173

Federal Program Title: Special Education—Preschool Grants

Federal Award Number and
Calendar Year Awarded: H173A990120; 1999

Reference Number: 2000-13-5
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

Our review of federal programs determined that the following compliance requirements relate to subrecipient monitoring:

The U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), Section 200, requires community colleges expending \$300,000 or more annually in federal awards to have an audit conducted according to the provisions 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 and follow up on the reported audit findings of the State's 71 community college districts for fiscal year 1998-99. Although the Chancellor's Office received all but five of the audit reports by the end of January 2000, as of August 2000, 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 sufficiently ensure that the reported findings were appropriately and promptly corrected.

RECOMMENDATION

The Chancellor's Office 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 is currently in the audit review process. It is distributing the audit findings weekly as it processes the reports. The Chancellor's Office expects that this process will allow it to resolve the findings more timely.

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

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

Reference Number: 2000-14-1
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: Special Tests and Provisions
State Administering Department: Department of Rehabilitation

CRITERIA

Our review of the Rehabilitation Services—Vocational Rehabilitation Grants to States program (program) determined that the following are among the compliance requirements for special tests and provisions.

The Code of Federal Regulations, Title 34, Section 361.53, requires the State to determine whether comparable services and benefits are available under any other program prior to providing any vocational rehabilitation services to eligible individuals. Further, Section 361.48 requires the State and the individual to make maximum efforts to secure grant assistance from other sources before any training or training services may be paid for with grant funds.

CONDITION

The Department of Rehabilitation (department) did not always ensure that a maximum effort was made by the individual to secure grant assistance from other sources before training and training services were paid for with grant funds. For example, in 1 of 40 cases we reviewed, a supervisor did not ensure that the individual had applied for or secured grant assistance before the department paid for costs related to the individual's attendance at an institution of higher education. In this case, the department paid more than \$1,400 for tuition, transportation, books, and supplies before it knew of any grant assistance the individual had received. Although the individual received an education grant to pay for these costs, this information was identified only after we requested it.

This condition occurred because there is a lack of departmental policy on the definition of "maximum efforts." For instance, we saw no evidence that the department encourages its district offices to make a maximum effort to secure funding from sources outside the department before the department will pay for the client's tuition and books or to ask clients to make a similar effort. When the department does not ensure that individuals make maximum efforts toward securing funding from other sources, the department may unnecessarily expend grant funds when funds from other sources are available.

RECOMMENDATION

The department should establish and implement uniform policies and procedures, including educating its staff, that require individuals to make maximum efforts toward securing financial assistance from sources outside the department before the department pays for an individual's training or training services at an institution of higher education. In addition, the department should seek to recover grant funds it expended for the client's tuition from the institution of higher education, if tuition was also paid from other financial sources.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The department generally agrees with our finding. The department states that maximizing the use of comparable benefits is consistent with the department's goal of improving cost effectiveness. The department states it has established a work group

that will consider our recommendation as part of its ongoing effort to ensure compliance with the federal requirement. This work group's first meeting is expected to occur by March 2001.

Reference Number: 2000-14-2

Category of Finding: Subrecipient Monitoring, Special Tests and Provisions

State Administering Department: Department of Education

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

CRITERIA

Our review of the Migrant Education—Basic State Grant Program (Migrant Education) and the Title I Grants to Local Educational Agencies program (Title I, Part A) determined that the following compliance requirements relate to 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 federal awards are used in compliance with laws and regulations and performance goals achieved. The United States Code, Title 20, Section 6322(c), requires local educational agencies (LEAs) that receive Migrant Education funds and Title I, Part A funds to use state and local funds to provide school services that are at least comparable to services provided by schools not receiving these federal funds.

CONDITION

The Department of Education (Education) did not sufficiently monitor LEAs to ensure they complied with the comparability requirement. Education informed LEAs about the requirement to provide services that are at least comparable to those provided by LEAs not receiving Migrant Education and Title I, Part A funds and received assurances from LEAs that they would observe the comparability requirement. But Education did not perform sufficient monitoring to ensure LEAs' compliance with the requirement.

We reported a similar finding in our audit of fiscal year 1998-99 for the Migrant Education program. At that time Education stated it would work with the U.S. Department of Education (USDE) to resolve a similar finding for the Title I, Part A program USDE identified in a 1998 Integrated Review report. Further, Education

stated that once the comparability issue was satisfactorily resolved for Title I, Part A, it would also be resolved for all Title I programs, including Migrant Education. Although Education has taken steps to communicate and emphasize the importance of the comparability requirement to LEAs and is currently working with USDE to resolve this issue, it remains unresolved.

RECOMMENDATION

Education should continue to work with USDE about how Education should revise its monitoring process to ensure that LEAs comply with the comparability requirement.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education will continue to work with USDE to develop an effective monitoring process for the Title I and Migrant Education comparability requirement.

U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84. 010
Federal Program Title:	Title I Grants to Local Educational Agencies
Federal Award Number and Calendar Year Awarded:	S010A990005; 1999
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Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—Basic State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A990005; 1999
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Reference Number:	2000-14-3
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loans
Year Awarded:	State fiscal year 1999-2000
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 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 organization reports to the federal government for computing the reinsurance rate is not always accurate; thus, the auxiliary organization may not be receiving the correct amount of funds. We reviewed 42 loans to determine if the auxiliary organization's records properly reflect the loans' status and found two instances where the records were incorrect. In both cases, the auxiliary incorrectly reported that the borrowers were enrolled. The errors occurred because the borrowers' schools failed to report changes in the 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 the samples, from 40 percent in fiscal year 1995-96 to 4.8 percent in fiscal year 1999-2000.

RECOMMENDATION

Student Aid and the auxiliary organization 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 organization should continue to review the status of loans in their system to ensure that the auxiliary organization's records reflect accurate information.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Student Aid agrees that there were two instances where borrowers' enrollment status did not correspond to the auxiliary organization'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 organization monitors the accuracy of the enrollment status data by comparing the National Student Loan Data System's (NSLDS) enrollment data against its own records, and then, if warranted, updates the borrower's record. Student Aid emphasizes that the auxiliary organization is dependent on the databases of schools, lenders, and the NSLDS and that these databases are not under the close control of the auxiliary organization.

Student Aid is considering other measures to address the inconsistency between the databases of the auxiliary organization and the other entities. One such measure would have the internal auditors of Student Aid and the auxiliary organization sample loans to verify borrowers' status and counsel schools that do not promptly report status changes.

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

Reference Number: 2000-13-6

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Developmental Services

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

CRITERIA

Our review of federal programs 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), assigns the State certain responsibilities for the federal awards it allocates to subrecipients. Among other responsibilities, the State must provide subrecipients certain information to identify the federal grants they receive. This information includes the Catalog of Federal Domestic Assistance title and number, award name and number, award year, and name of the federal agency. Additionally, the State must ensure that subrecipients spending \$300,000 or more annually in federal awards have met the audit requirements of the circular. Furthermore, Section 320 requires subrecipients to submit audit reports within 30 days after receiving an audit report or 9 months after the end of the audit period, whichever is earlier.

CONDITION

The Department of Developmental Services (Developmental Services) does not fulfill all of its subrecipient monitoring responsibilities. During fiscal year 1998-99, Developmental Services awarded Special Education—Grants for Infants and Families with Disabilities program (Early Intervention) and Medical Assistance Program (Medicaid) funds to 21 nonprofit regional centers. However, Developmental Services did not always inform regional centers of the federal award information and did not ensure that they met the audit requirements.

Our review of its agreements with the 21 regional centers revealed that Developmental Services does not always inform these centers of the required federal award information for either of the programs. As a result, 12 of the 21 regional centers did not report their expenditure of Medicaid awards in their fiscal year 1998-99 audit reports. When it does not provide the required federal award information, Developmental Services cannot assure that each regional center will identify for their independent auditors all its federal awards for the OMB Circular A-133 audit.

Additionally, Developmental Services did not ensure that the regional centers submitted required audit reports on time. Specifically, Developmental Services received 12 of the 21 regional center audit reports late. While most of the reports were only between 7 to 26 days late, one was 8 months late and another 4 months late. When Developmental Services receives audit reports late, it cannot follow up on identified issues in a timely manner.

RECOMMENDATION

Developmental Services should ensure it provides subrecipients with the required federal award information when it allocates the awards. Further, it should ensure it receives audit reports within the required time period.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Developmental Services concurs with the recommendation. It will evaluate and, as needed, strengthen the existing procedures to ensure that regional centers are notified of federal award information as required by OMB A-133. However, Developmental Services notes that it asked the Department of Health Services (DHS), which is the state agency that receives the federal funds for the Home and Community-Based Services waiver, for clarification regarding whether the requirements of OMB A-133 applied to regional centers. This clarification was not received from DHS until August 6, 1999, and this decision was transmitted to the regional centers on September 1, 1999. When DHS' decision was received, Developmental Services began developing procedures to ensure compliance with the OMB A-133 requirements. The audit reports referred to in the finding were for fiscal year 1998-99. Due to the timing of the DHS decision, not all regional centers were in full compliance with the requirements noted by the auditor. Developmental Services was aware that two regional centers mentioned in the finding would be late in submitting their reports due to unusual circumstances at the regional centers. Developmental Services closely monitored the regional centers and tracked the independent auditors' progress in completing the financial statements. Although Developmental Services has provided federal award information to the regional centers and their independent auditors, it will ensure that this information is transmitted in writing to the regional centers in the future.

U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families with Disabilities
Federal Award Number and Calendar Year Awarded:	H181A980037; 1998

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Catalog Number: 93.778

Federal Program Title: Medical Assistance Program

Federal Award Numbers and
Calendar Years Awarded: 05-9805CA5028; 1998
05-9905CA5028; 1999

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2000-2-1

Federal Catalog Number: 93.778

Federal Program Title: Medical Assistance Program

Federal Award Numbers and
Calendar Years Awarded: 05-9905CA5028; 1999
05-0005CA5028; 2000

Category of Finding: Allowable Costs and Cost Principles

State Administering Department: Department of Health Services

CRITERIA

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to allowable costs and cost principles:

The Code of Federal Regulations, Title 45, Sections 74.1(a)(3) and 92.4(a)(3), makes most provisions of Title 45, Part 74, applicable to the Medicaid program. Title 45, Section 74.27, requires states to determine the allowability of Medicaid program costs in accordance with the provisions of U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (OMB Circular A-87). OMB Circular A-87, Attachment A, Section C, requires allowable program costs to be permitted under state or local laws or regulations, to be net of all applicable credits, and to be adequately documented. Additionally, the Code of Federal Regulations, Title 42, Sections 431.17 and 433.32, requires the State to maintain fiscal records to assure that claims for federal funds are for the proper and efficient operation of the Medicaid program.

The Code of Federal Regulations, Title 42, Section 431.10, also authorizes the State to issue policies and regulations on program matters. For example, the California Code of Regulations, Title 22, Section 50090, requires certain program beneficiaries to apply income exceeding their maintenance needs toward the cost of health care services (share-of-cost) before the beneficiary is eligible for program benefits. Similarly, the California Code of Regulations, Title 22, Section 51005, requires that all other sources of health coverage, including Medicare, be exhausted before Medicaid is used. As for prescription drugs, the California Code of Regulations, Title 22, Section 51313, limits the maximum dispensed quantity, with some exceptions, to a 100-day supply.

CONDITION

The Department of Health Services (Health Services) does not adequately use its automated claim payment system to prevent or minimize the overpayment of certain provider claims and did not adequately document denials of other health coverage.

For one of the six drug claims we tested, Health Services overpaid the provider \$391. In this instance, the provider billed \$540 for 1,000 vials of a drug, which Health Services paid. However, an on-site review of the provider's records showed that the provider had dispensed only one vial of the drug and thus was entitled to receive only \$149.

While examining this claim, it came to our attention that Health Services does not adequately use a control in its automated claim payment system that could have prevented or minimized this overpayment and others like it. Specifically, Health Services' automated claim payment system does not specify 100-day maximum dispensed quantities for many of its more than 200,000 prescription drug items. Instead, the system uses default maximum quantities. The system then rejects claims that exceed these default maximum quantities.

Because the default maximum for the drug in our example was greater than 1,000 vials, the system authorized payment of the provider's claim. However, Health Services has discussed using 30 vials as a possible 100-day maximum quantity for this drug item. Had it used the more realistic 100-day maximum quantity, the system would have rejected this claim. By using realistic 100-day maximum quantities in its system, Health Services can prevent or minimize possible overpayments.

Additionally, Health Services' automated claim payment system does not reject long-term-care claims when providers do not enter the required share-of-cost amount on the claim form. Instead, the system automatically assigns a zero to the share-of-cost when the provider leaves this field blank and uses this zero share-of-cost when calculating the amount to pay the provider. As a result of this weak procedure, Health Services can overpay long-term-care provider claims when the providers do not report the required share-of-cost on their claim forms.

For example, Health Services overpaid one of the six long-term-care claims we reviewed because the provider did not report the beneficiary's required share-of-cost. Instead of rejecting this claim because of the missing information, Health Services' system assigned a zero to the share-of-cost field and used this zero share-of-cost to calculate the payment to the provider. After our inquiry, Health Services determined that the beneficiary had a monthly share-of-cost requirement of \$762 that the provider had failed to report and deduct from the provider claim. Had Health Services' system rejected the provider claim because of the missing share-of-cost information, Health Services could have prevented this \$762 overpayment by requiring the provider to resubmit the claim with the correct share-of-cost information and the correct billing amount before paying the claim. (We could not determine the number of claims assigned a zero for the share-of-cost because Health Services' system does not capture this information.)

Finally, Health Services does not always retain the required denials of Medicare coverage to support its authorizations for Medicaid benefits. Specifically, the State requires providers to submit written proof that Medicare coverage is exhausted or denied before Medicaid pays for long-term-care benefits. However, because it is the practice of Health Services' San Bernardino office to note the presence of a Medicare denial on the authorization form, but not to retain the denial if the authorization is approved, Health Services did not have the denial when we asked for it. As a result, Health Services could not demonstrate that these authorizations were properly approved. A proper approval is crucial because each authorization allows up to two years of long-term-care benefits.

RECOMMENDATION

To reduce the potential overpayment of provider drug claims, Health Services should determine and enter in its system a maximum 100-day supply for each prescription drug item.

To prevent the potential overpayment of certain long-term-care provider claims, Health Services should modify its automated claims processing system to require a share-of-cost entry on the provider claim and to reject claims with a blank share-of-cost entry.

To ensure that adequate documentation is retained to support the Medicaid claim payments, Health Services should instruct all field offices to retain the written denials of Medicare coverage that trigger authorizations of long-term-care Medicaid benefits.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the finding. It states that it has put in place a systematic approach to limit maximum dispensed quantities to a 100-day supply and is working toward setting limits for all drugs. However, because of limited resources, ongoing revisions of default maximum quantities, and the possibility that regulations may be required, the process is slow. Health Services affirms that it will continue to explore solutions for determining and using maximum 100-day quantities for each drug item. Additionally, it states that it is working toward modifying its automated claim processing system to correct the share-of-cost issue. Finally, it states it will instruct field offices to retain the written Medicare denials to support its authorizations of long-term-care Medicaid benefits.

Reference Number:	2000-3-6
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:	Cash Management
State Administering Department:	Managed Risk Medical Insurance Board

CRITERIA

Our review of the State Children's Insurance Program (program) identified the following compliance requirements related to cash management:

The Code of Federal Regulations, Title 31, Part 205, Subpart B, provides the cash management requirements for programs not covered in a Cash Management Improvement Act agreement between the U.S. Department of the Treasury and the State. Section 205.20 of this subpart requires the State to limit the cash advances from the U.S. Department of the Treasury to the minimum amounts needed and to time the advances, as close as it can, with the actual and immediate cash needs of the State to carry out the program. In addition, U.S. Department of Health and Human Services' guidelines require the State to receive these advances as close as possible to the time when it releases checks to pay for program costs.

CONDITION

The Managed Risk Medical Insurance Board (board) did not adequately minimize the amount of time elapsing between the transfer of federal funds to the State and their disbursement for program costs. The electronic funds transfer system that the board uses makes federal funds available to the State one business day after a request is made. However, the board's procedures allow it to request transfers four to five days before checks for program payments are released. As a result, the State earned interest of at least \$49,000 on 12 of the 13 transfers we reviewed. When the board uses procedures inconsistent with the objectives of the federal cash management requirements, it does not ensure that the time between the receipt and disbursement of federal funds is minimized.

RECOMMENDATION

To minimize the time elapsing between the receipt and disbursement of federal funds, the board should revise its procedures so that it requests federal funds closer to the date checks for program costs are released.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The board agrees with the finding and recommendation. The board states that in December 2000, it took immediate corrective action and the board's accounting office implemented revised procedures to minimize the time between the receipt and disbursement of federal funds. The board affirms that its current process requests federal funds after the requests for payment are sent to the controller to ensure that federal fund requests are timed closer to the release date of checks for program costs. The board states that the accounting office has updated the written procedures to reflect this revised process.

Reference Number:	2000-5-2
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:	Eligibility
State Administering Department:	Managed Risk Medical Insurance Board

CRITERIA

Our review of the State Children's Insurance Program (program) identified the following compliance requirements related to eligibility:

The United States Code, Title 42, Section 1397bb(b), requires the State to describe in its child health plan the standards and methods used to determine who is eligible for the program. Such standards may include age, income and resources, residency, and access to other health coverage. Also, the State must describe its procedures to ensure that children found eligible for the state-administered Medical Assistance Program (Medicaid) are enrolled in Medicaid. In addition, Section 1397gg(b) requires the State to maintain the records needed to monitor, audit, and evaluate the effectiveness of its administration of the program.

CONDITION

The Managed Risk Medical Insurance Board (board) does not always ensure it enrolls into the program only eligible individuals. Of the 42 cases we reviewed, 2 did not meet the program eligibility requirements because the family incomes were too low. In one case, the board had initially denied a family's enrollment in the program because its income was too low. The board subsequently enrolled the family when it reapplied using an altered and unsupported income tax return. Had the board followed its procedures to compare the data submitted on a reapplication with the initial application, the board would have detected and questioned this inconsistency before enrolling the family into the program. In the second case, the board mistakenly entered into its computer system family income that exceeded the amount on the family's income tax return. However, the board did not catch this error because it did not apply its quality control review procedures on this case. When processing initial applications, the board only applies its review procedures on a sample of cases rather than all cases. As a result, it enrolled this family into the program despite family income that was below the minimum required.

The board's application-processing procedures provide families with incomes too low for the program the choice of applying for Medicaid, where families do not pay monthly premiums or pay a share of the costs. However, in both of these cases, the board enrolled the families into the program even though their incomes made them eligible for Medicaid at no cost. When the board does not ensure that only eligible families participate in the program, families may needlessly pay for medical care they may be eligible to receive at no cost.

RECOMMENDATION

The board should ensure staff follow procedures to compare the data submitted by families that reapply for enrollment in the program. Additionally, to ensure it enrolls families meeting program income requirements, the board should emphasize to staff the importance of entering accurate family income information into its computer system.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The board concurs with the finding. The board states that it immediately instructed its contracted staff to improve the staff training programs to emphasize the importance of following the established review procedures, as well as the critical requirement of entering accurate family income information into its system. The board also indicates that as part of its contract monitoring, it plans to enhance its quality control reviews over eligibility determinations to ensure contractor compliance with the established program regulations and procedures.

Reference Number:	2000-7-1
Federal Catalog Number:	93.994
Federal Program Title:	Maternal and Child Health Services Block Grant to the States
Federal Award Numbers and Calendar Years Awarded:	98B1CAMC; 1998 B04MC003363-03; 1999
Category of Finding:	Earmarking
State Administering Department:	Department of Health Services

CRITERIA

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

The United States Code, Title 42, Section 705(a)(3), requires states to use at least 30 percent of program payments for preventive and primary care for children, and at least 30 percent for services for children with special health care needs. In addition, Section 704(d) prohibits states from using more than 10 percent of the annual grant amount to administer the funds.

CONDITION

The Department of Health Services (Health Services) does not have adequate procedures to ensure that it meets the program's earmarking requirements. Specifically, Health Services' accounting records do not reflect the actual amounts spent for preventive and primary care for children, for services for children with special health care needs, and for program administration. This happens because Health Services does not require its subrecipients and contractors to report the amounts they actually spent for each of these components. Instead, Health Services established a coding structure in its accounting system that uses predetermined percentages to allocate subrecipient and contractor payments to these program components. As a result, when Health Services does not know the actual amounts spent for each of the required program components, it cannot be sure that children received sufficient levels of service and that it spent federal funds in accordance with federal requirements.

RECOMMENDATION

To determine whether it spends program funds at the required levels, Health Services should develop and implement sufficient procedures to account for the actual amounts spent on program components.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Although Health Services agrees that it uses predetermined percentages to estimate the amounts spent for each of the required program components, it believes that using estimates is the most viable approach to spreading costs to these components. Health Services states that the assigned percentages are based on the target population and the program activities as established by legislative authorization and specified in the scope of work for each contractor. Health Services believes that requiring contractors to bill according to actual amounts spent on each component would create an undue hardship on many agencies, such as nonprofit community-based organizations that have limited administrative support.

Health Services states that it has informally contacted the federal Maternal and Child Health Bureau (federal bureau) regarding its interpretation of this requirement and how other states implement the 30-30-10 allocation. According to Health Services, the federal bureau said that it does not routinely review the methodology states use to meet the earmarking requirements. Health Services asserts that if based upon this finding the federal bureau determines that California is not in compliance with this requirement, Health Services will work directly with the federal bureau to address this issue administratively rather than place the burden on local contractors.

Reference Number:	2000-9-3
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

Our review of federal programs 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 always require participants to submit signed suspension and debarment certifications. Specifically, for three of its federal programs, Health Services did not have procedures for obtaining the required suspension and debarment certifications from organizations participating in these programs.

When Health Services does not obtain the required certifications, it risks unknowingly allowing suspended or debarred parties to participate in the federal programs. For the transactions we reviewed, we used an alternative test to determine that these participants were not suspended or debarred.

RECOMMENDATION

Health Services should establish procedures to ensure all program participants submit signed suspension and debarment certifications before approving their participation in programs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the finding. Health Services states that it has notified its program administrators on the need to obtain the suspension and debarment certification from current program participants that receive federal award funds. In addition, Health Services states that it is modifying its standard contract to include the certification language.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Catalog Number:	93.268
Federal Program Title:	Immunization Grants
Federal Award Number and Calendar Year Awarded:	H23/CCH904423-10-9; 1999

Federal Catalog Number: 93.917
Federal Program Title: HIV Care Formula Grants
Federal Award Numbers and
Calendar Years Awarded: 6X07HA00041-08; 1998
6X07HA00041-09; 1999

Federal Catalog Number: 93.994
Federal Program Title: Maternal and Child Health Services Block Grant
to the States
Federal Award Number and
Calendar Year Awarded: 6B04MC003363-03; 1998

Reference Number: 2000-10-1
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

Our review of the State Children's Insurance Program (program) identified the following compliance requirements related 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, it 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.

We first reported this finding in fiscal year 1998-99. At that time, the board stated that the contractor was redesigning its financial system to allow the board to verify program income, with an expected completion date of October 2000. The contractor completed the first phase of the project in October 2000 and plans to begin testing the second phase during the spring of 2001. Once the second phase is completed, the board expects that it will be able to perform a full reconciliation of program income.

RECOMMENDATION

The board should continue to work with the contractor to complete the redesign of its financial system so the board can reconcile its program income with the amounts the contractor receives.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The board concurs with the finding and states that it is working with the contractor to ensure timely completion and implementation of the second phase of the Financial Redesign Project. The board asserts that this second phase will enable it to perform a full program income reconciliation, whereas the goal of the now-completed first phase was to establish the system infrastructure by creating the necessary transaction-based system.

Reference Number:	2000-12-6
Federal Catalog Number:	93.994
Federal Program Title:	Maternal and Child Health Services Block Grant to the States
Federal Award Number and Calendar Year Awarded:	6B04MC003363-03; 1998
Category of Finding:	Reporting
State Administering Department:	Department of Health Services

CRITERIA

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

The United States Code, Title 42, Section 706(a), requires the State to prepare and submit an annual report concerning its program activities. This annual report must contain accurate information pertaining to the description of such activities, a complete record of the purposes and extent for which the funds were spent, and describe the extent to which the State has met certain program goals and objectives. Additionally, federal guidelines for completing the report instruct the State to make an estimate if an actual number is unavailable and to explain all estimates in a footnote.

CONDITION

The Department of Health Services (Health Services) does not always report complete information in its annual program report to the U.S. Department of Health and Human Services (HHS). Specifically, Health Services does not identify and explain that some of the expenditures in its annual report are estimated expenditures. For example, Health Services reported spending \$1.1 billion for fiscal year 1998-99 program activities, but did not identify and explain in its annual report that this amount includes estimated expenditures of more than \$374.5 million from its Children's Medical Services branch. Additionally, Health Services used predetermined percentages to calculate certain expenditures by the types of individuals served and by the types of services provided, but also did not explain that it used predetermined percentages to estimate these amounts. This happened because Health Services has not established the accounting processes needed to capture and report this program expenditure information.

Similarly, in its reporting of program results, Health Services submitted inaccurate information related to the State's screening and treatment of individuals with specific genetic disorders and did not explain its estimates in the report. For example, in reporting the number and percentage of newborns and others screened for diseases, Health Services under reported the number of confirmed cases of sickle cell disease and the number of sickle cell cases needing and receiving treatment. Additionally, because it used a flawed methodology, Health Services submitted an incorrect estimate of the number of HIV cases in California needing and receiving treatment. Specifically, to estimate this number, Health Services multiplied its estimation of the number of confirmed HIV cases in California by a percentage that bears no relationship to the population Health Services was attempting to identify. Finally, in reporting the primary sources of insurance coverage for children with special health care needs, Health Services used average caseloads from county administrative claims to estimate the number of children served, but did not explain this estimate in its report.

Without adequate mechanisms to capture and report actual program expenditures and performance outcomes, Health Services cannot ensure that it is providing complete and accurate information to HHS. Moreover, when Health Services does not identify and explain all report estimates, HHS may be unable to make a sound assessment of Health Services' success in enhancing the well-being of mothers and children served by the program.

RECOMMENDATION

Health Services should identify and explain all the estimates it uses in its annual report to HHS. Additionally, it should implement a system to adequately capture and report program expenditures by individuals served and the types of services provided. Finally, it should establish mechanisms to properly account for the number of individuals served under the program.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the finding. Health Services states that when it prepares future annual reports to the federal government, it will identify and explain all estimates. Health Services believes that using estimates is the most viable approach to spreading costs to both the individuals served and the types of services provided. Health Services states that the assigned predetermined percentages are based on the target population and program activities as established by legislative authorization and specified in the scope of work for each contractor. It believes that requiring contractors to bill according to actual amounts spent on each type of individual served and by service provided would create an undue hardship on many agencies, such as nonprofit community-based organizations that have limited administrative support. Health Services states that if based on this finding, the federal Maternal and Child Health Bureau (federal bureau) determines California's methodology for estimating costs is not in compliance with federal requirements, it will work directly with the federal bureau to address this issue administratively rather than place the burden on local contractors.

Additionally, Health Services states that it does not currently have a statewide registry of all the children with special health care needs served by the program. It states that an automated statewide case management system that will provide the number of children with special health care needs served by the program is under development and is now used by 46 of California's 58 counties. Health Services notes that the development of this system and its progress toward full use of the system is discussed in the annual report.

Reference Number:	2000-12-7
Federal Catalog Number:	93.674
Federal Program Title:	Independent Living
Federal Award Number and Calendar Year Awarded:	G-9901CA1420, 1999
Category of Finding:	Reporting
State Administering Department:	Department of Social Services

CRITERIA

Our review of the Independent Living program (ILP) identified the following compliance requirements related to reporting:

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 accurately describe the activities of the programs, provide a complete record of purposes for which funds were spent, and indicate the extent to which the funds spent achieved program purposes as described by the code section. The report must also include a detailed statistical description of the number of individuals served and their characteristics, results achieved, and recommendations for program modifications.

CONDITION

The Department of Social Services (Social Services) still does not ensure that counties expending ILP funds include all the required information on their performance reports. Social Services relies on the counties' annual performance reports to provide evidence of their use of federal funds. Social Services also uses these reports in preparing its annual statewide program performance report to the federal government. Although Social Services required and obtained significantly more information from counties this year than it did in the previous fiscal year, reported budgetary and outcome information from several counties remained insufficient. Specifically, 9 of the 54 counties using ILP funds did not include the required budgetary information and 7 did not list the outcomes of their program operations. As a result, Social Services' annual performance report to the federal government did not include complete information detailing how the State spent federal ILP funds and what specific outcomes were achieved.

RECOMMENDATION

Social Services should continue its efforts to ensure that counties include all required information in their annual performance reports. In addition, it should ensure that its program performance report includes all federally required information.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Social Services concurs with the recommendation. It states that it has already taken steps to address this recommendation to ensure that counties include all required information in their ILP Annual Narrative Report (Report).

Social Services advised us that on November 13, 2000, it issued All-County Letter No. 00-76 to remind counties of their obligation to submit their 1999-2000 Report and inform them that the Report format has been amended to capture all federally required programmatic and budgetary information related to the John H. Chafee Foster Care Independence Program. The 1999-2000 Report asks counties to narratively describe:

- 1) Their ILP.
- 2) How the transitional ILP living plan is utilized as a component of their ILP.
- 3) Specific ILP services related to education, employment, daily living skills, outreach for ILP participants, collaboration, and aftercare for eligible youth.
- 4) Their Transitional Housing Placement Program.

It further stated that the 1999-2000 Report also asks counties to provide detailed statistical data for each of the programmatic topics listed above regarding:

- 1) The specific number of youth within various age and level-of-care parameters, (i.e. still in foster care or emancipated).
- 2) The age-appropriate services provided.
- 3) The number of youth receiving each service.

Moreover, Social Services stated that the 1999-2000 Report asks counties to provide specific budget information that will enable Social Services to determine the amount of funds expended for the programmatic services listed above.

Finally, Social Services affirmed that the following technical assistance procedure has been established and will be diligently enforced to ensure that all counties submit a complete and accurate Report. An internal tracking system has been established to ensure timely receipt of Reports by counties and to ensure the information contained therein is complete. Social Services' contact and assistance will be maintained with each county until their Report includes a thorough description of the activities of the programs; provides a complete record of budget expenditures and program outcomes; indicates the extent to which the funds spent achieved program purposes as described by the United States Code, Title 42, Section 677(g), includes a detailed

statistical description of the number of individuals served and their characteristics, and results achieved. Social Services believes the additional corrective actions will be sufficient to achieve full compliance by the counties.

Reference Number:	2000-14-4
Federal Catalog Number:	93.268
Federal Program Title:	Immunization Grants
Federal Award Number and Calendar Year Awarded:	H23/CCH904423-10-9; 1999
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Immunization Grants program (program) identified the following compliance requirements related to controls over vaccines:

The Code of Federal Regulations, Title 45, Section 92.20(b)(3), requires recipients' financial management systems to provide effective control over and accountability for all funds, property, and other assets. Additionally, recipients must adequately safeguard all such assets and assure they are used solely for authorized purposes.

CONDITION

The Department of Health Services (Health Services) did not properly account for its vaccine inventory when it reported incomplete inventory information to the Centers for Disease Control and Prevention (federal agency). Specifically, the federal agency requested inventory levels for central, regional, and distributor sites for January 1, 1999, and December 31, 1999. However, because Health Services did not have written procedures specifying how to complete the inventory report, it inadvertently omitted inventories from the Berkeley depot, a central distribution center, from its report. Additionally, it reported inventory totals as of December 1, 1999, rather than as of December 31, 1999. After our review, Health Services established written procedures for completing the inventory report and submitted a revised report to the federal agency in October 2000.

RECOMMENDATION

To ensure it reports complete and accurate inventory information to the federal agency, Health Services should continue to use its new inventory reporting procedures.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the finding and states it has adopted procedures for reporting its vaccine inventories.

Reference Number:	2000-14-6
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-9905CA5048; 1999 05-0005CA5048; 2000
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to 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. The provider must agree to disclose certain information, such as any significant ownership or controlling interest in any other 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 renewed. Finally, Section 440.60 establishes that medical assistance is medical or remedial care or services provided by licensed practitioners.

CONDITION

The Department of Health Services (Health Services) does not have adequate controls over provider agreements and disclosures. Specifically, our review of 31 provider files revealed that Health Services could not locate agreements for 24 of these providers. Furthermore, although Health Services had on file at least a provider application or a provider data form that furnished the disclosure information for 19 of these 24 providers without agreements, it could not locate any disclosure documents for the other 5 providers. Moreover, we could not verify the licensing for 2 of these 5 providers without agreements or disclosures. When Health Services cannot demonstrate that it obtained the required provider agreements and disclosures, and that these providers were properly licensed, it cannot assure that it made Medicaid claim payments only to authorized providers.

Additionally, although we found no specific schedule for renewing these provider agreements, our review of the seven agreements on file revealed that Health Services could benefit from the periodic renewal of agreements. Specifically, six of the seven agreements were more than 5 years old; and one of these six was more than 20 years old. Consequently, Health Services is relying on potentially outdated provider information.

According to Health Services, it has developed an expanded provider agreement and has begun the process of re-enrolling existing providers. However, because approximately 130,000 active providers exist, Health Services prioritized its re-enrollment process and began re-enrolling the higher-risk providers in June 1999.

RECOMMENDATION

Health Services should establish procedures to ensure that the required provider agreements and disclosures are retained for all providers receiving Medicaid claim payments. Furthermore, Health Services should continue with its re-enrollment process and should consider periodically renewing all provider agreements so that the disclosure of significant beneficial interest and other pertinent provider information is reasonably current.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the finding and states it is working on resolving this issue. It states that due to the large number of providers and limited staff to work on this project, it is currently focusing its efforts toward re-enrolling higher-risk providers first.

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AUDITEE'S SECTION

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Schedule of Federal Assistance

**Prepared by
Department of Finance**

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**STATE OF CALIFORNIA
SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 2000**

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Department of Agriculture		
Forestry Incentives Program	10.064	\$ 7,625
Farm Labor Housing Loans and Grants	10.405	2,000,000
Rural Housing Preservation Grants	10.433	8,233,892
Food Distribution	10.550	82,257,630*
Special Supplemental Food Program for Women, Infants, and Children	10.557	614,313,479
Child and Adult Care Food Program	10.558	199,659,536
State Administrative Expenses for Child Nutrition	10.560	12,155,462
Nutrition Education and Training Program	10.564	221,053
Commodity Supplemental Food Program	10.565	1,921,827
Nutrition Program for the Elderly	10.570	11,048,662
WIC Farmers' Market Nutrition Program (FMNP)	10.572	809,299
Team Nutrition Grants	10.574	23,066
Cooperative Forestry Assistance	10.664	1,315,146
National Forest-Dependent Rural Communities	10.670	653,325
Wildlife Habitat Incentive Program	10.914	1,713
Other—U.S. Department of Agriculture	10.999	3,551,433
Total Excluding Clusters		938,173,148
Food Stamp Cluster		
Food Stamps	10.551	1,602,358,182*
State Administrative Matching Grants for Food Stamp Program	10.561	206,282,435
Total Food Stamp Cluster		1,808,640,617
Child Nutrition Cluster		
School Breakfast Program	10.553	200,639,857
National School Lunch Program	10.555	780,967,334
Special Milk Program for Children	10.556	859,483
Summer Food Service Program for Children	10.559	19,222,380
Total Child Nutrition Cluster		1,001,689,054

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Emergency Food Assistance Cluster		
Emergency Food Assistance Program (Administrative)	10.568	6,175,379
Emergency Food Assistance Program (Commodity)	10.569	<u>21,466,368*</u>
Total Emergency Food Assistance Cluster		<u>27,641,747</u>
Schools and Roads Cluster		
Schools and Roads - Grants to States	10.665	<u>28,634,008</u>
Total U.S. Department of Agriculture		<u><u>3,804,778,574</u></u>
Department of Commerce		
Economic Development-Support for Planning Organizations	11.302	50,000
Special Economic Development and Adjustment Assistance Program-Sudden and Severe Economic Dislocation and Long Term Economic Deterioration	11.307	600,058
Sudden and Severe Economic Dislocation	11.311	8,465,734**
Anadromous Fish Conservation Act Program	11.405	518,690
Interjurisdictional Fisheries Act of 1986	11.407	106,577
Coastal Zone Management Administration Awards	11.419	2,415,032
Coastal Zone Management Estuarine Research Reserves	11.420	599,626
Marine Sanctuary Program	11.429	39,007
Habitat Conservation	11.463	148,696
Telecommunications and Information Infrastructure Assistance Program	11.552	68,214
Other—U.S. Department of Commerce	11.999	<u>112,758</u>
Total U.S. Department of Commerce		<u><u>13,124,392</u></u>
Department of Defense		
Navigation Projects	12.107	3,483
Planning Assistance to States	12.110	532,180
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	7,095,889
National Guard Military Operations and Maintenance (O&M) Projects	12.401	31,407,328
Community Economic Adjustment Planning Assistance	12.607	22,505
Other—U.S. Department of Defense	12.999	<u>5,415,025</u>
Total U.S. Department of Defense		<u><u>44,476,410</u></u>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Department of Housing and Urban Development		
Manufactured Home Construction and Safety Standards	14.171	129,298
Community Development Block Grants/State's Program	14.228	42,391,432
Emergency Shelter Grants Program	14.231	5,509,945
Supportive Housing Program	14.235	5,703,532**
Supplemental Assistance for Facilities to Assist the Homeless	14.236	18,010
HOME Investment Partnerships Program	14.239	70,331,190**
Housing Opportunities for Persons with AIDS	14.241	2,232,255
Equal Opportunity in Housing	14.400	1,881,661
Lead-Based Paint Hazard Control Priority Housing	14.900	<u>1,219,188</u>
Total Excluding Clusters		129,416,511
Section 8 Project-Based Cluster		
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856	82,934
Section 8 Tenant-Based Cluster		
Section 8 Rental Voucher Program	14.855	2,094,477
Section 8 Rental Certificate Program	14.857	<u>944,206</u>
Total Section 8 Tenant-Based Cluster		<u>3,038,683</u>
Total U.S. Department of Housing and Urban Development		<u>132,538,128</u>
Department of the Interior		
Recreation Resource Management	15.225	14,172
Small Reclamation Projects	15.503	410,980
Anadromous Fish Conservation	15.600	47,011
Endangered Species Conservation	15.612	175,942
Coastal Wetlands Planning, Protection and Restoration Act	15.614	665,935
Cooperative Endangered Species Conservation Fund	15.615	591,180
Clean Vessel Act	15.616	851,885
Wildlife Conservation and Appreciation	15.617	37,104
Water Resources Investigations	15.804	61,438
Geological Survey-Research and Data Acquisition	15.808	152,485
Historic Preservation Fund Grants-In-Aid	15.904	1,271,934
Outdoor Recreation-Acquisition, Development and Planning	15.916	471,639

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Other - U.S. Department of the Interior	15.999	<u>22,182,460</u>
Total Excluding Clusters		26,934,165
Fish and Wildlife Cluster		
Sport Fish Restoration	15.605	8,965,728
Wildlife Restoration	15.611	<u>6,415,093</u>
Total Fish and Wildlife Cluster		15,380,821
Research and Development Cluster		
Anadromous Fish Conservation	15.600	9,740
Coastal Wetlands Planning, Protection and Restoration Act	15.614	<u>301,042</u>
Total Research and Development Cluster		<u>310,782</u>
Total U.S. Department of the Interior		<u>42,625,768</u>

Department of Justice

Juvenile Accountability Incentive Block Grants	16.523	7,294,738
Juvenile Justice and Delinquency Prevention- Allocation to States	16.540	7,493,953
Juvenile Justice and Delinquency Prevention-Special Emphasis	16.541	2,120,769
Part E-State Challenge Activities	16.549	392,297
National Criminal History Improvement Program	16.554	2,184,348
National Sex Offender Registry Assistance	16.555	1,361,372
Criminal Justice Discretionary Grant Program	16.574	894,555
Crime Victim Assistance	16.575	36,283,388
Crime Victim Compensation	16.576	19,458,000
Byrne Formula Grant Program	16.579	52,255,285
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	170,571
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	24,952,998
Violence Against Women Formula Grants	16.588	16,525,720
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	146,587
Local Law Enforcement Block Grants Program	16.592	69,453
Residential Substance Abuse Treatment for State Prisoners	16.593	3,035,019
State Identification Systems Grant Program	16.598	414,478
Corrections-Technical Assistance/Clearinghouse	16.603	260,632
State Criminal Alien Assistance Program	16.606	177,706,111

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Regional Information Sharing Systems	16.610	2,649,434
Public Safety Partnership and Community Policing Grants	16.710	14,276,455
Other - U.S. Department of Justice	16.999	<u>1,191,208</u>
Total Excluding Clusters		371,137,371
Research and Development Cluster		
Violence Against Women Formula Grants	16.588	<u>327,348</u>
Total U.S. Department of Justice		<u>371,464,719</u>
Department of Labor		
Labor Force Statistics	17.002	6,574,092
Compensation and Working Conditions Data	17.005	611,976
Labor Certification for Alien Workers	17.203	6,907,465
Unemployment Insurance	17.225	2,960,379,281
Senior Community Service Employment Program	17.235	6,994,834
Trade Adjustment Assistance-Workers	17.245	7,572,104
Welfare-to-Work Grants to States and Localities	17.253	75,429,535
Occupational Safety and Health	17.500	146,857
Occupational Safety and Health-State Program	17.503	20,086,768
Consultation Agreements	17.504	5,181,748
Mine Health and Safety Grants	17.600	328,714
Veterans' Employment Program	17.802	563,188
Other - U.S. Department of Labor	17.999	<u>577,815</u>
Total Excluding Clusters		3,091,354,377
Employment Services Cluster		
Employment Service	17.207	104,048,389
Disabled Veterans' Outreach Program	17.801	12,674,561
Local Veterans' Employment Representative Program	17.804	<u>6,562,293</u>
Total Employment Services Cluster		123,285,243
JTPA Cluster		
Employment and Training Assist-Dislocated Workers	17.246	262,301,649
Job Training Partnership Act	17.250	<u>319,920,783</u>
Total JTPA Cluster		<u>582,222,432</u>
Total U.S. Department of Labor		<u>3,796,862,052</u>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Department of Transportation		
Boating Safety Financial Assistance	20.005	2,185,527
Airport Improvement Program	20.106	132,413
Motor Carrier Safety	20.217	5,677,821
Local Rail Freight Assistance	20.308	1,104,968
Federal Transit - Metropolitan Planning Grants	20.505	12,991,627
Formula Grants for Other Than Urbanized Areas	20.509	11,986,250
Pipeline Safety	20.700	3,400,217
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	484,819
Other - U.S. Department of Transportation	20.999	<u>19,791</u>
Total Excluding Clusters		37,983,433
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	1,898,559,430**
Federal Transit Cluster		
Federal Transit Capital Improvement Grants	20.500	5,817,877
Highway Safety Cluster		
State and Community Highway Safety	20.600	21,170,394
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	<u>7,034,863</u>
Total Highway Safety Cluster		28,205,257
Research and Development Cluster		
Highway Planning and Construction	20.205	<u>19,614,462</u>
Total U.S. Department of Transportation		<u>1,990,180,459</u>
Department of Treasury		
Other - U.S. Department of Treasury	21.999	313,244
Equal Employment Opportunity Commission		
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	2,242,000

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
General Services Administration		
Donation of Federal Surplus Personal Property	39.003	11,012,367***
National Aeronautics and Space Administration		
Technology Transfer	43.002	250,797
National Foundation on the Arts and the Humanities		
Promotion of the Arts-State and Regional Program	45.007	890,300
State Library Program	45.310	<u>15,467,118</u>
Total National Foundation on the Arts and Humanities		<u><u>16,357,418</u></u>
National Science Foundation		
Education and Human Resources	47.076	457,172
Small Business Administration		
Procurement Assistance to Small Businesses	59.009	311,445
Small Business Development Center	59.037	<u>6,041,786</u>
Total Small Business Administration		<u><u>6,353,231</u></u>
Department of Veterans Affairs		
Grants to States for Construction of States Home Facilities	64.005	17,369,426
Veterans State Domiciliary Care	64.014	5,969,749
Veterans State Nursing Home Care	64.015	8,947,785
Veterans State Hospital Care	64.016	95,573
All Volunteer Force Educational Assistance	64.124	61,138
Other - U.S. Department of Veterans Affairs	64.999	<u>1,058,983</u>
Total U.S. Department of Veterans Affairs		<u><u>33,502,654</u></u>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Environmental Protection Agency		
Air Pollution Control Program Support	66.001	6,924,378*
State Indoor Radon Grants	66.032	29,001
Construction Grants for Wastewater Treatment Works	66.418	156,978
Water Pollution Control-State and Interstate Program Support	66.419	6,242,035
State Underground Water Source Protection	66.433	384,531
Construction Management Assistance	66.438	126,989
Water Quality Management Planning	66.454	842,357
National Estuary Program	66.456	81,286
Capitalization Grants for State Revolving Funds	66.458	1,371,462,527**
Nonpoint Source Implementation Grants	66.460	6,093,725
Wetlands Protection-State and Tribal Development Grants	66.461	404,187
National Pollutant Discharge Elimination System Related State Program Grants	66.463	776,850
Near Coastal Waters	66.464	94,947
Capitalization Grants for Drinking Water State Revolving Fund	66.468	4,243,316
Hardship Grants Program for Rural Communities	66.470	695,745
Air Pollution-Control Research	66.501	10,688
Safe Drinking Water Research and Demonstration	66.506	7,379,370
Toxic Substances Research	66.507	239,793
Surveys, Studies, Investigations and Special Purpose Grants	66.606	1,158,416*
Consolidated Pesticide Compliance Monitoring and Program Cooperative Agreements	66.700	1,067,628
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	99,541
TSCA Title IV State Lead Grants-Certification of Lead-Based Paint Professionals	66.707	285,658
Pollution Prevention Grants Program	66.708	95,735
Hazardous Waste Management State Program Support	66.801	8,118,352
Superfund State Site-Specific Cooperative Agreements	66.802	2,605,944
State Underground Storage Tanks Program	66.804	417,817
Leaking Underground Storage Tank Trust Fund Program	66.805	4,063,636
Solid Waste Management Assistance	66.808	89,392
Brownfield Pilots Cooperative Agreements	66.811	23,471
Other - U.S. Environmental Protection Agency	66.999	<u>140,937</u>
Total Excluding Clusters		1,424,355,230

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Research and Development Cluster		
Wetlands Protection - State and Tribal Development Grants	66.461	227,596
Consolidated Pesticide Compliance Monitoring and Program Cooperative Agreements	66.700	463,652
Pollution Prevention Grants Program	66.708	34,691
Other - U.S. Environmental Protection Agency	66.999	<u>34,387</u>
Total Research and Development Cluster		<u>760,326</u>
Total U.S. Environmental Protection Agency		<u>1,425,115,556</u>
 Department of Energy		
State Energy Program	81.041	1,728,586
Weatherization Assistance for Low-Income Persons	81.042	4,320,488
Energy Conservation for Institutional Buildings	81.052	40,000
Regional Biomass Energy Programs	81.079	4,251
Renewable Energy Research and Development	81.087	15,401
Environmental Restoration	81.092	424,661
Technology Development for Environmental Management	81.104	147,657
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	441,149
Other - U.S. Department of Energy	81.999	<u>78,506</u>
Total U.S. Department of Energy		<u>7,200,699</u>
 Federal Emergency Management Agency		
Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act of 1986	83.011	285,242
State Disaster Preparedness Grants	83.505	296,863
Earthquake Hazards Reduction Grants	83.521	359,369
Emergency Management-State and Local Assistance	83.534	3,698,340
Mitigation Assistance	83.535	1,273,520
Flood Mitigation Assistance	83.536	79,114
Crisis Counseling	83.539	79,262
Individual and Family Grants	83.543	273,071
Public Assistance Grants	83.544	467,311,991

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
First Response Counter Terrorism Training Assistance	83.547	8,132
Hazard Mitigation Grant	83.548	108,806,377
Project Impact: Building Disaster Resistant Communities	83.551	13,858
Emergency Management Performance Grants	83.552	<u>5,432,507</u>
Total Federal Emergency Management Agency		<u><u>587,917,646</u></u>

Department of Education

Adult Education-State Grant Program	84.002	14,017,552
Title I Grants to Local Educational Agencies	84.010	939,837,200
Migrant Education-Basic State Grant Program	84.011	101,828,627
Title I Program for Neglected and Delinquent Children	84.013	3,288,224
Services for Children with Deaf-Blindness	84.025	798,665
Special Education-Personnel Development and Parent Training	84.029	123,420
Vocational Education-Basic Grants to States	84.048	98,781,678
Vocational Education-State Councils	84.053	215,550
Leveraging Educational Assistance Partnership	84.069	3,924,149
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	227,418,811
Rehabilitation Services-Service Projects	84.128	1,025,445
Public Library Construction and Technology Enhancement	84.154	1,200,523
Immigrant Education	84.162	45,855,849
Independent Living-State Grants	84.169	2,264,277
Rehabilitation Services-Independent Living Services for Older Individuals Who Are Blind	84.177	166,361
Special Education-Grants for Infants and Families with Disabilities	84.181	39,198,130
Byrd Honors Scholarships	84.185	2,461,812
Safe and Drug-Free Schools and Communities – State Grants	84.186	55,124,972
Supported Employment Services for Individuals with Severe Disabilities	84.187	4,149,237
Bilingual Education Support Services	84.194	1,162,622
Education for Homeless Children and Youth	84.196	3,147,004
Even Start-State Educational Agencies	84.213	14,501,009
Fund for the Improvement of Education	84.215	183,762
Capital Expenses	84.216	2,198,134
Assistive Technology	84.224	1,075,423
Tech-Prep Education	84.243	10,203,028

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	406,361
National Early Intervention Scholarship and Partnership	84.272	185,449
Goals 2000-State and Local Education Systemic Improvement Grants	84.276	52,200,120
School to Career - Implementation Grants	84.278	31,162,439
Eisenhower Professional Development State Grants	84.281	36,485,169
Charter Schools	84.282	11,360,044
Innovative Education Program Strategies	84.298	43,386,192
Technology Literacy Challenge Fund Grants	84.318	54,600,392
Special Education-State Program Improvement Grants for Children with Disabilities	84.323	558,542
Advanced Placement Incentive Program	84.330	546,443
Grants to States for Incarcerated Youth Offenders	84.331	1,878,738
Comprehensive School Reform Demonstration	84.332	12,077,651
Teacher Quality Enhancement Grants	84.336	296,353
Class Size Reduction	84.340	99,611,943
Preparing Tomorrow's Teachers to Use Technology	84.342	<u>33,674</u>
Total Excluding Clusters		<u>1,918,940,974</u>
Student Financial Aid Cluster		
Federal Family Education Loans	84.032	28,238,825,206**
Special Education Cluster		
Special Education-Grants to States	84.027	552,397,425
Special Education-Preschool Grants	84.173	<u>52,394,945</u>
Total Special Education Cluster		<u>604,792,370</u>
Total U.S. Department of Education		<u>30,762,558,550</u>
Consumer Product Safety Commission		
Other-Consumer Product Safety Commission	87.999	10,262
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	584,455
Special Programs for the Aging-Title VII, Chapter 2- Long Term Care Ombudsman Services for Older Individuals	93.042	880,268

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Special Programs for the Aging-Title III, Part F- Disease Prevention and Health Promotion Services	93.043	2,229,345
Special Programs for the Aging-Title III, Part D- In-Home Services for Frail Older Individuals	93.046	967,167
Special Programs for the Aging-Title IV, Training, Research and Discretionary Projects and Programs	93.048	134,114
Grants for Residential Treatment Programs for Pregnant and Postpartum Women	93.101	2,066,293
Demonstration Grants for Residential Treatment for Women and Their Children	93.102	1,569,752
Food and Drug Administration-Research	93.103	2,792,956
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	677,547
Maternal and Child Health Federal Consolidated Programs	93.110	41,276
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	6,067,451
Grants for Podiatric Medicine	93.119	81,036
Emergency Medical Services for Children	93.127	121,578
Primary Care Services - Resource Coordination and Development Primary Care Offices	93.130	197,820
Injury Prevention and Control Research and State and Community Based Programs	93.136	327,907
Projects for Assistance in Transition from Homelessness	93.150	3,238,814
Health Program for Toxic Substances and Disease Registry	93.161	962,433
Grants for State Loan Repayment	93.165	543,128
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196	604,497
Demonstration Cooperative Agreements for Development and Implementation of Criminal Justice Treatment Networks	93.229	1,098,049
Consolidated Knowledge Development and Application Program	93.230	212,209
Traumatic Brain Injury-State Demonstration Grant Program	93.234	39,146
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	468,146
Immunization Grants	93.268	117,266,600*
Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	39,272
Promoting Safe and Stable Families	93.556	31,951,786
Temporary Assistance for Needy Families	93.558	3,592,844,164
Family Support Payments to States-Assist Payments	93.560	360,580
Child Support Enforcement	93.563	130,484,304

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Refugee and Entrant Assistance-State Administered Programs	93.566	28,539,967
Low-Income Home Energy Assistance	93.568	49,588,747
Community Services Block Grant	93.569	43,571,510
Community Services Block Grant - Discretionary Award	93.570	93,624
Community Services Block Grant Discretionary Awards-Community Food and Nutrition	93.571	317,492
Emergency Community Services for the Homeless	93.572	1,234,456
Refugee and Entrant Assistance-Discretionary Grants	93.576	8,861,692
Repatriation Program	93.579	20,015
Refugee and Entrant Assistance-Targeted Assistance	93.584	8,630,031
Empowerment Zones Program	93.585	681,694
Community-Based Family Resource and Support Grants	93.590	2,796,969
Welfare Report Research, Evaluations and National Studies	93.595	70,897
Grants to States for Access and Visitation Programs	93.597	678,560
Head Start	93.600	191,771
Child Support Enforcement Demonstrations and Special Projects	93.601	118,800
Developmental Disabilities Basic Support and Advocacy Grants	93.630	6,436,901
Children's Justice Grants to States	93.643	877,644
Child Welfare Services-State Grants	93.645	37,094,338
Social Services Research and Demonstration	93.647	76,818
Foster Care-Title IV-E	93.658	951,082,131
Adoption Assistance	93.659	131,861,009
Social Services Block Grant	93.667	216,638,092
Child Abuse and Neglect State Grants	93.669	2,671,814
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	6,141,214
Independent Living	93.674	23,285,595
State Children's Insurance Program	93.767	135,465,564
Medicare-Supplementary Medical Insurance Health Care Financing and Research, Demonstrations and Evaluations	93.774	7,104,418
Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	93.779	920,582
Grants to States for Operation of Offices of Rural Health	93.902	4,789
HIV Care Formula Grants	93.913	126,905
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.917	93,344,336
	93.919	6,252,945

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	756,514
HIV Prevention Activities: Health Department Based Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome and Human Immunodeficiency Virus Infection in Selected Population Groups	93.940	12,489,257
Assistance Program for Chronic Disease Prevention and Control	93.943	597,877
	93.945	971,087
Demonstration Grants to States with Respect to Alzheimer's Disease	93.951	445,541
Block Grants for Community Mental Health Services	93.958	34,007,492
Block Grants for Prevention and Treatment of Substance Abuse	93.959	197,641,287
Preventive Health Services-Sexually Transmitted Disease Control Grants	93.977	2,491,337
Preventive Health Services-Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978	389,205
Mental Health Disaster Assistance and Emergency Mental Health	93.982	247,283
Health Program for Refugees	93.987	1,015,055
Cooperative Agreements for State-Based Diabetes Control Program and Evaluation of Surveillance Systems	93.988	805,763
Preventive Health and Health Services Block Grant	93.991	18,140,964
Maternal and Child Health Services Block Grant to the States	93.994	60,404,063
Other - Department of Health and Human Services	93.999	<u>21,046,510</u>
Total Excluding Clusters		6,015,082,648
Aging Cluster		
Special Programs for the Aging-Title III, Part B- Grants for Supportive Services and Senior Centers	93.044	27,969,869
Special Programs for the Aging-Title III, Part C- Nutrition Services	93.045	<u>47,273,753</u>
Total Aging Cluster		75,243,622
Child Care Cluster		
Child Care and Development Block Grant	93.575	483,922,396
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	<u>223,033,232</u>
Total Child Care Cluster		706,955,628
Medicaid Cluster		
Medical Assistance Program	93.778	11,882,865,235

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
State Medicaid Fraud Control Units	93.775	9,938,004
State Survey and Certification of Health Care Providers and Suppliers	93.777	<u>24,548,302</u>
Total Medicaid Cluster		<u>11,917,351,541</u>
Total U.S. Department of Health and Human Services		<u>18,714,633,439</u>
Corporation for National and Community Service		
State Commission	94.003	1,058,422
Learn and Serve America-School and Community Based Programs	94.004	2,660,576
AmeriCorps	94.006	<u>23,043,878</u>
Total Excluding Clusters		26,762,876
Foster Grandparent/Senior Companion Cluster		
Foster Grandparent Program	94.011	<u>1,299,664</u>
Total U.S. Corporation for National and Community Service		<u>28,062,540</u>
Social Security Administration		
Disability Insurance/SSI Cluster		
Social Security-Disability Insurance	96.001	168,837,683
Miscellaneous Grants and Contracts		
Shared Revenue-Flood Control Lands	98.002	203,209
Shared Revenue-Grazing Land	98.004	119,903
Capital Outlay - Reed Act	98.012	1,867,000
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	159,278
U.S. Department of Agriculture and Various Other U.S. Department-Fire Prevention/Suppression	98.016	5,144,018
Miscellaneous Federal Receipts	98.099	905,713
Miscellaneous Federal Receipts	98.999	<u>2,497,490</u>
Total Miscellaneous		<u>11,030,611</u>
Total Federal Awards Received		<u>\$61,971,906,371</u>

*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, 2000**

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, 2000. 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 \$61,971,906,371 in total federal assistance consists of the following:

Cash assistance received	\$30,569,669,261
Noncash federal awards	1,814,089,576
Loans and/or loan guarantees outstanding	25,545,116,044
Insurance in-force	4,043,031,490
Total	\$61,971,906,371

2. BASIS OF ACCOUNTING

OMB Circular A-133 and the Single Audit Act of 1984 (Amended 1996) require the Schedule of Federal Assistance to present total expenditures for each federal assistance program. However, although the state accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State prepares its Schedule of Federal Assistance on a cash receipts basis. The schedule shows the amount of cash and noncash federal assistance received, loans and loan guarantees outstanding, and insurance in-force for the year ended June 30, 2000.

3. UNEMPLOYMENT INSURANCE

Of the \$2,960,379,281 in total unemployment insurance funds (federal catalog number 17.225) received by the Employment Development Department during fiscal year 1999-2000, \$2,594,000,000 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, 1999, to June 30, 2000. According to the State's Department of Forestry and Fire Protection, the amount loaned from July 1, 1999, to June 30, 2000, was approximately \$8.2 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:	99-12-6
Federal Catalog Number:	All Programs
State Administering Department:	Department of Finance
Fiscal Year Finding Initially Reported:	1995-96
Audit Finding:	<u>Reporting Requirements.</u> Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule shows total receipts, rather than expenditures, by program.
Status of Corrective Action:	Uncorrected. 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. ¹
Reference Number:	99-3-3
Federal Catalog Number:	10.558
State Administering Department:	Department of Education
Fiscal Year Finding Initially Reported:	1998-99
Audit Finding:	<u>Cash Management.</u> The Department of Education (CDE) 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, CDE'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. A review of three of these participants revealed that CDE 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. Additionally, a review of ten other participants that had outstanding advances when they were canceled from the food program showed that in seven cases, CDE took more than six months to generate invoices to recover the funds.
Status of Corrective Action:	Fully corrected. ²

Endnotes begin on page 175.

Reference Number: **99-5-1**
Federal Catalog Number: 10.558
State Administering Department: Department of Education
Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: Eligibility. The 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. CDE could not demonstrate that it confirms the license status of sites annually. CDE stated that it had safeguards to ensure that sites have valid and current licenses. However, CDE does not conduct annual audits and administrative reviews of all participating institutions. Additionally, the monitoring reviews participating institutions conduct do not provide CDE 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.

Status of Corrective Action: Fully corrected. ³

Reference Number: **99-7-3**
Federal Catalog Number: 10.555
State Administering Department: Department of Education
Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Matching, Reporting. The Department of Education (CDE) lacked adequate controls and documentation to support its reported state match. For fiscal year 1997-98, CDE 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 CDE 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 CDE believes it met the state match, it cannot be certain without adequate controls and documentation.

Status of Corrective Action: Fully corrected. ⁴

Reference Number: **99-12-7**

Federal Catalog Number: 10.557

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1998-99

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

Status of Corrective Action: Partially corrected. The California WIC Program staff rely on documents provided by the DHS Accounting Office to support expenditures. However, the WIC Program does recognize that the instance occurred and an effort is being taken to correct the final federal financial report for the WIC Program for FFY 1998. The target date for the revised closeout is October 2000.

Reference Number: **99-13-10**

Federal Catalog Number: 10.557

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Subrecipient Monitoring. The Department of Health Services (DHS) lacks an adequate system to ensure that it promptly receives all audit reports required by OMB Circular A-133 from non-profit subrecipients of the Special Nutrition Program for the Women, Infants, and Children (WIC) Program as well as a system to ensure that it issues timely management decisions on reported findings. Moreover, DHS 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.

Status of Corrective Action: Partially corrected. The DHS WIC program staff met with the DHS Maternal Child Health Branch in August 2000 to identify all non-profit subrecipients that must submit audit reports. DHS WIC Program staff is still reviewing all findings and has not issued management decisions for all subrecipients.⁵

Reference Number: **99-14-4**

Federal Catalog Number: 10.550

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Special Tests and Provisions. The Department of Education (CDE) did not properly account for its donated foods, nor did it report losses or excess inventory to the USDA as required. During the auditor's observation of CDE's August 1999 physical inventory of donated foods stored in the Sacramento warehouse, it was noted that CDE 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, CDE did not include processed foods in the physical inventory count. CDE also 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, CDE did not notify the U.S. Department of Agriculture (USDA) of any losses, nor did it report any excess inventory. These problems were found to be endemic to the warehouse's inventory reconciliation process.

Status of Corrective Action: Fully corrected.⁶

Reference Number: **99-14-6**

Federal Catalog Number: 10.557

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Special Tests and Provisions. For the two-year period reviewed, state fiscal years 1997-98 and 1998-99, the Department of Health Services (DHS) did not perform all the monitoring reviews of local agencies as required and did not always promptly address the deficiencies identified during reviews.

Status of Corrective Action: Fully corrected.

Reference Number: **99-13-3**

Federal Catalog Number: 10.550, 10.553, 10.555, 10.556, 10.558, 10.559, 84.002, 93.575, and 93.596

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: Subrecipient Monitoring. The Department of Education (CDE) did not sufficiently monitor the audit reports of the nonprofit subrecipients. Specifically, for seven of the nine programs reviewed, CDE 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, CDE had not received reports for the fiscal year 1997-98 audit period from 33 of 201 subrecipients. In addition, CDE did not review 47 of the 168 reports it received within six months, as required. As a result, CDE could not issue management decisions or ensure timely corrective action on audit findings that could affect federal program funds.

Furthermore, because CDE'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, it could not be determined 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, CDE lacks the assurance that nonprofit subrecipients are complying with federal laws and regulations.

Status of Corrective Action: Partially corrected. Over the past 18 months, CDE'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, CDE has received 21 of the 33 audit reports identified as not received by the auditors as of August 1, 1999. CDE is continuing to take action to obtain the remaining 12 audit reports and has notified nutrition and adult education 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, CDE 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 CDE 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, CDE has modified its audit report tracking system to specifically identify the allocation of federal funds.

To further strengthen the audit process, CDE staff are developing a Feasibility Study report for a new audit tracking system, which will automatically notify CDE staff and generate notices to subrecipients when audit reports are overdue. The CDE has completed all prior year nutrition audits and expects to complete prior year child care and development audits by November 15, 2000.⁷

Reference Number: **99-7-2**

Federal Catalog Number: 15.605

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 (DFG) 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, DFG reported in its financial status report the costs it incurred as well as 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, DFG cannot be certain its financial participation in projects meets federal requirements.

Status of Corrective Action: Fully corrected.⁸

Reference Number: **99-2-1**

Federal Catalog Number: 17.207, 17.225, 17.250, 17.801, and 17.804

State Administering Department: Employment Development Department

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Allowable Costs and Cost Principles. The Employment Development Department (EDD) lacked documentation to support some of its payroll and operating costs allocated to federal programs. For 7 of the 30 payroll transactions 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. The EDD also allocated four of ten operating costs 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 these analyses.

Furthermore, EDD could not produce evidence that it adjusted the percentages quarterly to reflect more current circumstances. As a result, it could not be determined whether EDD appropriately allocated seven payroll transactions and four operating costs totaling \$26,000 among various state programs and five federal programs.

Status of Corrective Action: Partially corrected. To date, EDD has proposed eliminating up to 60 percent of the existing allocation codes being used. A departmental work group is currently developing a new process for establishing, deleting, documenting, and performing periodic reviews of allocation codes. EDD anticipates the new process, which will resolve the audit finding, will be implemented by December 31, 2000.⁹

Reference Number: **99-3-1**

Federal Catalog Number: 83.544

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: Cash Management. The Department of Finance (Finance) requires state departments to report information related to the receipt and disbursement of federal funds so that it can calculate interest liabilities under the Cash Management Improvement Act

Agreement. However, during fiscal year 1998-99, the Office of Emergency Services (OES) omitted 23 transactions totaling \$8,960,000 from its quarterly reports for the Public Assistance Grants. Specifically, OES did not report two receipts of federal funds totaling \$2,299,000 and 21 refunds of federal funds totaling \$6,661,000. In addition, OES 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.

Status of Corrective Action: Fully corrected.

Reference Number: **99-12-1**

Federal Catalog Number: 83.544

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 in fiscal year 1998-99. For the subrecipients reviewed, OES failed to obtain 56 of 72 reports required. The Federal Emergency Management Agency (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, OES and FEMA cannot fully monitor the projects.

Status of Corrective Action: Fully corrected.

Reference Number: **99-12-2**

Federal Catalog Number: 83.544 and 83.548

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: Reporting. In fiscal year 1998-99, the Office of Emergency Services (OES) did not reconcile the receipts and disbursements reported in its federal cash

transaction reports to the receipts and disbursements reported in its official accounting records. As a result, it could not be determined whether the receipts and disbursements reported in the quarterly federal cash transaction reports agreed with the department's accounting records.

Status of Corrective Action: Uncorrected. With existing resources, OES has been able to perform a monthly reconciliation for receipts and disbursements, which encompasses all accounting transactions for the Federal Trust Fund. While OES has not been successful in the past, it intends to go forward with another request for additional positions OES believes is necessary to develop and perform the more detailed reconciliation described in the finding.¹⁰

Reference Number: **99-12-3**

Federal Catalog Number: 83.544 and 83.548

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Reporting. The Office of Emergency Services (OES) 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 OES 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, OES underreports the level of recipient expenditures. In fiscal year 1998-99, it reported only state expenditures for Public Assistance Grants projects. For example, OES 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, OES failed to report federal expenditures for administrative allowances for either program.

Status of Corrective Action: Fully corrected.

Reference Number: **99-13-5**

Federal Catalog Number: 83.544

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: Subrecipient Monitoring. The Office of Emergency Services (OES) does not ensure that a management decision regarding 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 OES subrecipients and forwarded 14 findings to OES for resolution. These findings included \$1 million in questioned costs. The OES did not follow up on any of the findings. In addition, OES 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, OES cannot ensure that subrecipients are complying with federal laws and regulations.

Status of Corrective Action: Uncorrected. OES agrees with the finding, but contends that its inability to obtain additional staffing prevents OES from adequately performing subrecipient monitoring.¹¹

Reference Number: **99-1-1**

Federal Catalog Number: 84.181

State Administering Department: Department of Developmental Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Activities Allowed. The Department of Developmental Services (DDS) has not developed and implemented sufficient procedures to ensure that it disburses Special Education – Grants for Infants and Families with Disabilities program (Early Intervention) funds for allowable purposes. Of the 40 disbursements reviewed, 3 lacked sufficient information and approvals to assure that the expenditures were proper charges to the Early Intervention program. The DDS paid a subrecipient \$20,100 for an invoice that lacked the subrecipient's signature. This is contrary to DDS' 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 DDS to verify which program, if any, had received the mediation and hearing services for which it was billed. Nonetheless, DDS paid the invoices without requiring OAH to provide needed information.

Status of Corrective Action: Fully corrected.¹²

Reference Number: **99-2-2**

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 Department of Education (CDE) charges costs to the Special Education program that are not specific to the federal grant. Specifically, in fiscal year 1998-99, CDE 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 CDE uses federal funds to pay the cost of allocating state funds, it does not ensure it complies with federal regulations for allowable costs.

A similar finding was reported in the audit of fiscal years 1996-97 and 1997-98. At that time, CDE 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.

The CDE 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. CDE'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.

Status of Corrective Action:

Uncorrected. CDE disagrees with the finding. This finding relates to CDE's uses 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 CDE charges all administrative costs associated with the federal Special Education program, CDE 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. CDE 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.

CDE 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 programs. CDE does not believe that it is necessary to obtain advance approval from the U.S. Department of Education to continue this practice. When California receives funds under the Individuals with Disabilities Education Act (IDEA), it is obligated to establish a Special Education program for California's children. California has only one Special Education program. Federal and state funds are combined to administer California's Special Education program, implementing IDEA mandated services.

On February 16, 2000, CDE received a Program Determination Letter on this same finding for 1996-97 from the Assistant Secretary of the Office of Special CDE and Rehabilitative Services, U.S. Department of CDE. The Assistant Secretary concluded that the audit report does not contain sufficient information to make a

determination on whether funds were used inappropriately. Consequently, the Assistant Secretary did not sustain the audit report's finding.

Reference Number: **99-3-5**

Federal Catalog Number: 84.048 and 84.243

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

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: Cash Management, Subrecipient Monitoring. The California Community Colleges, Chancellor's Office (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 the subrecipients' use of the funds.

Status of Corrective Action: Partially corrected. To date, non-community college recipients have been placed on a claim reimbursement payment process. Also, this year, for community college recipients, the Chancellor's Office is studying funds received versus expenditures under the parameters of the VTEA act and state plan, which calls for a performance review, and possible consolidation of under-performing consortia. ¹³

Reference Number: **99-5-2**

Federal Catalog Number: 84.126

State Administering Department: Department of Rehabilitation

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: Eligibility. The Department of Rehabilitation (Rehabilitation) does not always determine applicant eligibility within the required 60 days. For 3 of the 40 case files 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 form to extend the eligibility determination period. For the remaining cases, 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

Status of Corrective Action:

Partially corrected. Rehabilitation trained district administrators on streamlined case recording requirements at a statewide district administrator meeting in fiscal year 1999-2000. The district administrators provided training at the district level and emphasized the required 60-day eligibility timeline and documentation requirements. The assistant deputy directors followed up this training by reinforcing the 60-day eligibility requirement in district management team meetings and periodic review of client case files.

Rehabilitation supervisors continue to be responsible for reviewing and approving all eligibility determinations and extensions. The Rehabilitation supervisors work collaboratively with their counselors to ensure that regulations are followed and that proper case file documentation exists. Counselors and rehabilitation supervisors receive automated approval reminder lists that include the 60-day eligibility determination due dates. In addition, Rehabilitation currently has a workgroup of district administrators, Rehabilitation supervisors, and other staff developing management information reports to assist district administrators and rehabilitation supervisors on achieving their goals and objectives and in monitoring compliance such as the timeliness of eligibility determinations. It is anticipated that the workgroup will have reports developed by the end of fiscal year 2000-01.

Rehabilitation contract administrators continue to work in collaboration with their school programs on procedures to promptly provide Rehabilitation counselors with signed client applications and to document the date applications are received. In addition, Rehabilitation contract administrators and other field staff were reminded of the requirement to document the date an application is received and that the counselors receipt of an application is the effective date of applicant status. The training for contract administrators on prompt referral of program applicants, previously planned for July 2000, will be conducted in the contract development training scheduled for November 2000. The contract administrators will be directed to delineate the referral and application process for school programs as a required part of each

contract beginning in fiscal year 2001-02 and to ensure that the contract process is in accordance with the federal regulations on application acceptance, documentation and timeliness.¹⁴

Reference Number: **99-7-1**

Federal Catalog Number: 84.048

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Earmarking. The Department of Education (CDE) 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, CDE 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. CDE 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, CDE states that it has modified these procedures to make sure that it is currently meeting the earmarking requirements.

Status of Corrective Action: Fully corrected.

Reference Number: **99-9-4**

Federal Catalog Number: 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 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.

Status of Corrective Action: Fully corrected.¹⁵

Reference Number: **99-13-1**
Federal Catalog Number: 84.002
State Administering Department: Department of Education
Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: Subrecipient Monitoring. The Department of Education (CDE) did not adequately monitor subrecipients of the Adult Education Program. CDE'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, a review of five monitoring files revealed that three lacked sufficient evidence to show that the reviews complied with federal requirements.

Similarly, in the fiscal year 1997-98 audit, it was reported that CDE 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, CDE stated that they were trying to reconstruct the compliance review files and develop a database to record the results of the reviews. CDE 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.

Status of Corrective Action: Fully corrected.

Reference Number: **99-13-2**
Federal Catalog Number: 84.027 and 84.173
State Administering Department: Department of Education
Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Subrecipient Monitoring. The Department of Education (CDE) 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, CDE discontinued reviewing these programs during its Coordinated Compliance Review (CCR) site visits. The CCR site visits were a significant component of CDE's monitoring efforts and included a review of subrecipients' compliance with federal laws and regulations. Although CDE 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 requirements, these activities cannot replace the CCR site visits. According to CDE, 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.

Status of Corrective Action:

Partially corrected. In fiscal year 1998-99, while CDE'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.

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

In fiscal year 1999-2000, CDE 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, a CDE-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.

The CDE staff continuously review complaint and compliance trends. If an LEA has a large number of complaints and/or noncompliance findings, CDE initiates a review of the LEA's policies and procedures and provides technical assistance and guidance to correct systemic areas of noncompliance. CDE completed 54 onsite reviews of subrecipients during fiscal year 1999-2000.¹⁶

Reference Number: **99-13-4**

Federal Catalog Number: 84.048 and 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 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.

Status of Corrective Action: Partially corrected. The Chancellor's Office hired a full-time employee on October 25, 1999 to assist in monitoring and processing contracted district audits of community college districts. This staff member has assisted in addressing the workload issues for subrecipient monitoring. The Chancellor's Office expects that the Single Audit recommendations will be fully implemented by the end of fiscal year 2000-01.¹⁷

Reference Number: **99-13-6**

Federal Catalog Number: 84.181

State Administering Department: Department of Developmental Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Subrecipient Monitoring. The Department of Developmental Services (DDS) 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). In addition, DDS does not ensure that subrecipients receiving more than \$300,000 in federal funds receive audits required by OMB Circular A-133. Finally, DDS does not issue management decisions to subrecipients regarding their resolution of OMB Circular A-133 audit findings. The DDS 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, DDS does not issue management decisions to the regional centers advising them whether their corrective action plans adequately address audit findings.

Status of Corrective Action: Fully corrected.

Reference Number: **99-13-11**

Federal Catalog Number: 84.011

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Subrecipient Monitoring, Special Tests and Provisions. The Department of Education (CDE) did not sufficiently monitor local educational agencies (LEA) to ensure they complied with the comparability requirement. Furthermore, CDE did not identify the Catalog of Federal Domestic Assistance number for Migrant Education, which may hamper subrecipients' ability to prepare required financial schedules accurately. In its response to a 1998 federal report issued by the U.S. Department of Education identifying a similar finding, CDE stated it relied on annual audits of LEAs that local auditors perform to satisfy the comparability requirement. Furthermore, CDE stated that it reviewed the work papers supporting the audit of four LEAs. However, federal representatives indicated that, based on information provided by CDE on this issue, relying on such audits is not sufficient to verify that LEAs are in compliance.

Status of Corrective Action: Partially corrected. CDE includes the Catalog of Federal Domestic Assistance number on each Migrant Education grant award letter. CDE has prepared information to be disseminated to subrecipients regarding their responsibility to ensure comparability of services.

- Subrecipients are being required to ensure through a written policy that their migrant staff are being paid salaries based upon the same salary schedule as used for all other employees of the subrecipient.
- Subrecipients are being required to ensure through a written policy that teachers, administrators and other staff are deployed equally among all schools.
- Subrecipients are being required to ensure through a written policy that curriculum materials and instructional supplies are deployed equally among all schools.
- Subrecipients will certify their compliance to the three above requirements in their annual regional application and school district service agreements. Compliance will be monitored through the annual application and service agreement review and approval process and by the subrecipient's independent auditor as part of the single audit. ¹⁸

Reference Number: **99-14-1**

Federal Catalog Number: 84.032

State Administering Department: California Student Aid Commission

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Allowable Costs and Special Tests and Provisions. An auxiliary organization administers the loan program on behalf of the California Student Aid Commission (SAC). The auditors found that the auxiliary paid almost \$58,000 for questionable or unallowable costs of the loan program. The following problems were identified:

- A 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.
- A review of personnel service costs found that the auxiliary paid its former president and chief executive officer (CEO) relocation expenses of

\$36,400 and related tax liability of \$33,600. Although this move clearly benefited the CEO, whose wife had accepted a job in Southern California, it's questionable 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 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.

Status of Corrective Action:

Partially corrected. In regard to travel expenses and as noted above, SAC developed and implemented detailed travel guidelines. The U.S. Department of Education approved these guidelines in November 1999. SAC provided training to all traveling staff in December 1999. SAC's Internal Audit Unit has not completed their report to date. The recovery of any inappropriate expenses will be part of this activity.

In regard to relocation expenses, SAC transferred \$32,040 on April 7, 2000 from the Student Loan Operating Fund (Operating Fund) to the Federal Student Reserve Fund (Federal Fund) from which the relocation expenses were originally paid. The Federal Fund has been fully reimbursed for the relocation expenses.

The tax liability paid to the former CEO of EDFUND related to the relocation expenses, \$33,300, and the remaining portion of the travel expenses tied to the relocation, \$4,380, are being addressed as a separate matter. These funds were paid directly from the Operating Fund.

At this point in time, recognizing that the detailed audit of these matters is incomplete, it is anticipated that any inappropriate expenses incurred by any EDFUND individual will be billed to the individual responsible and the resultant repayment will be deposited in the Operating Fund.

Reference Number: **99-14-2**
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 Federal Family Education Loans program (loan program) on behalf of the Student Aid Commission (SAC), has 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 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. A similar finding was reported in fiscal year 1997-98.

Status of Corrective Action: Fully corrected.

Reference Number: **99-14-3**
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 Student Aid Commission's (SAC) 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. Forty loans were reviewed to determine if the auxiliary's records properly reflect the loans' status and in three instances the auxiliary incorrectly reported that the borrowers were enrolled. The errors occurred because the borrowers' schools failed to report changes in the student status within the time required by federal regulations. Although similar errors were identified during the audits for fiscal years 1995-96 through 1998-99, there has been a marked decrease in exceptions in the samples, from 40 percent in fiscal year 1995-96 to 7.5 percent in fiscal year 1998-99.

Status of Corrective Action: Partially corrected. The number of status difference errors has been substantially reduced from prior years as a result of concerted efforts by SAC and EDFUND to make sure that the student borrower enrollment and loan status data between lenders, schools and the SAC Financial Aid Processing System (FAPS) are in full agreement. On this matter, SAC/EDFUND is completely dependent on the timeliness and accuracy of the lenders and schools reporting either directly to FAPS or indirectly through other third party reporting entities who then report to FAPS. If an enrollment or loan status is not reported as required, FAPS may show a different status than one or both of the other entities. Thus, this “status of finding” cannot ever be considered fully corrected. Some differences will occur with the extreme volume of transactions involved.¹⁹

Reference Number: **99-9-1**

Federal Catalog Number: 84.011, 93.575, and 93.596

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: Suspension and Debarment. The Department of Education (CDE) 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). CDE did not have any other procedures in place to make sure it was not awarding federal money to suspended or debarred parties. According to a program consultant for Migrant Education, CDE neglected to include the suspension and debarment certification in the fiscal year 1998-99 assurance package it sent to participants. Although no evidence was found that any of the participants were suspended or debarred from participating in the federal program, without adequate controls, CDE runs the risk of having this happen.

Status of Corrective Action: Fully corrected.

Reference Number: **99-2-3**

Federal Catalog Number: 93.917 and 93.940

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1998-99

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

Status of Corrective Action: Partially corrected. The OA distributed Federal Certification and Time Accounting (FCTA) procedures to ensure employees who work 100 percent on a single federally funded activity shall certify to this fact by signing the FCTA form on a semiannual basis, starting with the January-June 2000 reporting period. Pending corrective actions include developing a time reporting system for employees who work on a combination of federal and non-federal activities.

Reference Number: **99-3-2**

Federal Catalog Number: 93.563

State Administering Department: Department of Social Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Cash Management. During fiscal year 1998-99, the Department of Social Services (CDSS) reported no interest days for two transactions of \$10 million and approximately \$22 million. However, the numbers of days between the date CDSS 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 CDSS did not maintain adequate documentation, it could not be determined 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, CDSS cannot ensure that it provides the necessary information to Department of Finance to comply with

the provision of the Cash Management Improvement Act (CMIA) agreement.

Status of Corrective Action: Fully corrected.

Reference Number: **99-3-4**

Federal Catalog Number: 93.575 and 93.596

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Cash Management, Subrecipient Monitoring. The Department of Education (CDE) 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. Thirty subrecipients were identified 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. Reserve accounts are considered 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 CDE does not require subrecipients to identify the source of funds in their reserve accounts, the amount of federal funds in these accounts could not be determined.

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

Status of Corrective Action: Uncorrected. CDE disagrees with the finding. 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, CDE 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. CDE 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, CDE contacted the HHS central office to obtain their opinion on the legality of child development reserve accounts. HHS requested that CDE submit a written formal request for a determination by HHS General Counsel. On March 31, 2000, CDE submitted a written request for determination from HHS General Counsel. Upon receipt of HHS' determination, CDE will take immediate corrective action, if required.

Reference Number: **99-8-1**

Federal Catalog Number: 93.674

State Administering Department: Department of Social Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Period of Availability. The Department of Social Services (CDSS) spent \$815,896 in federal Independent Living Services Program (ILSP) funds after the period of availability for the grant had ended. Although CDSS was required to spend the ILSP 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 CDSS to draw ILSP funds after the period of availability to reimburse costs it paid during the period of availability. However, because CDSS did not pay these invoices prior to September 30, 1998, these costs were not allowable under the period-of-availability requirements.

Status of Corrective Action: Uncorrected. CDSS disagrees with the finding. In a follow-up contact, the Region IX Administration for Children and Families (ACF) Office confirmed that CDSS was in compliance with the above finding. ACF verbally confirmed that the expenditures in question were within the terms and conditions of the federal fiscal year (FFY) 1997 ILSP grant. After reviewing the Interagency Agreement and supporting invoices, ACF agreed that costs were incurred and expended by the vendor within the 1997 grant period, thus meeting the liquidation criteria. The timing of the actual draw down of federal funds, which is what the auditor was testing,

is irrelevant to the terms and conditions of the grant. CDSS is anticipating written confirmation of this understanding from ACF.

According to the audit agency's interpretation, even though the expenditure in question was beyond the FFY 1997 ILSP grant availability period, it was eligible for FFY 1998 ILSP grant reimbursement. Therefore, to resolve this finding, the CDSS re-charged the expenditures in question to the FFY 1998 ILSP grant. Thus, the subject expenditures were credited to the FFY 97 ILSP grant and debited to the FFY 98 ILSP grant on the PMS. Consequently, there is not a need to remit federal funds back to the awarding agency.

Reference Number: **99-9-2**

Federal Catalog Number: 93.917 and 93.940

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Suspension and Debarment. The Department of Health Services (DHS) did not require participants applying for or receiving HIV program sub awards 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 DHS runs the risk of unknowingly allowing suspended or debarred parties to participate in the federal HIV programs.

Status of Corrective Action: Uncorrected. After the Office of AIDS (OA) meets with the Contract Management Unit and the Office of Legal Services to specifically discuss proposed language, they intend to include boilerplate language regarding suspension and debarment in all OA contracts.²⁰

Reference Number: **99-9-3**

Federal Catalog Number: 93.767

State Administering Department: Managed Risk Medical Insurance Board

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Suspension and Debarment. The Managed Risk Medical Insurance Board (MRMIB) 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, MRMIB did not have other methods of ensuring it was not providing federal grant awards to suspended or debarred parties. Without adequate controls, MRMIB runs the risk of unknowingly allowing suspended or debarred parties to participate in the federal program.

Status of Corrective Action: Fully corrected.

Reference Number: **99-10-1**

Federal Catalog Number: 93.767

State Administering Department: Managed Risk Medical Insurance Board

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Program Income. The Managed Risk Medical Insurance Board (MRMIB) does not prepare an adequate reconciliation to ensure that it receives all program income it has earned. Specifically, MRMIB 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 MRMIB, limitations in its contractor's system prevent a complete and accurate accounting and reconciliation of program income. However, MRMIB states that the contractor is currently redesigning its financial system to allow MRMIB to verify its income. Specifically, MRMIB states that the redesign, which began in September 1999, will include the development of a premium accounting data file and will allow MRMIB to verify program income. The MRMIB expects the contractor to complete the data file by October 2000.

Status of Corrective Action: Partially corrected. The MRMIB is currently working on completing the Financial Redesign Project with Electronic Data Systems Corporation (EDS), the Healthy Families Program administrative vendor, which will allow MRMIB to account for and verify program income components through the development of a subscriber premium (or family contribution) data file. This is a long-term system redesign project. Phase 1 which sets up the transaction records is currently being tested. Complete reconciliation of program income will be addressed in Phase 2 of the Project with a targeted completion date by the end of October 2000.²¹

Reference Number: **99-12-4**

Federal Catalog Number: 93.767

State Administering Department: Managed Risk Medical Insurance Board

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Reporting. The Managed Risk Medical Insurance Board (MRMIB) needs to improve its procedures to prepare accurate federal financial reports for the program. Specifically, MRMIB 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 MRMIB to identify the error.

Status of Corrective Action: Fully corrected.

Reference Number: **99-12-5**

Federal Catalog Number: 93.558, 93.674 and 93.563

State Administering Department: Department of Social Services

Fiscal Year Finding Initially Reported: 1993-94

Audit Finding: Reporting. The Department of Social Services (CDSS) did not reconcile quarterly reports of federal cash transactions (PMS272 reports) for fiscal year 1998-99 to its accounting records. As a result, CDSS lacks assurance that the amounts it reported for cash draws and related expenditures are accurate. CDSS did not reconcile the PMS272 reports to its accounting records for the Temporary Assistance for the 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, CDSS 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, CDSS 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 showed that it had approximately \$56 million on hand for the 1998 and 1999 Child Support Enforcement program grants alone. A similar finding was reported in the audits of fiscal years 1993-94 through 1997-98.

Although CDSS suggested and agreed to use, specific procedures to correct this finding after the last audit, it has not consistently done so.

Status of Corrective Action: Fully corrected.

Reference Number: **99-13-7**

Federal Catalog Number: 93.917 and 93.940

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Subrecipient Monitoring. The Department of Health Services (DHS) Office of Aids (OA) does not adequately identify and track subrecipient audit reports. According to its log, the OA 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 OA had no system to track the required audit reports.

Status of Corrective Action: Uncorrected. The DHS has not corrected this finding. OA plans to arrange a meeting with the appropriate units to discuss appropriate *Financial and Compliance Audit Requirements* contract language and to clarify the roles of the OA, the Contract Management Unit and the Audits and Investigations Unit.²²

Reference Number: **99-13-9**

Federal Catalog Number: 93.674

State Administering Department: Department of Social Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Subrecipient Monitoring and Reporting. The Department of Social Services (CDSS) has not developed and implemented a strategy to effectively monitor or report the activities of subrecipients of the federal Independent Living Program (ILP). CDSS 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.

Status of Corrective Action:

Partially corrected. CDSS anticipates complete implementation of an improved strategy to effectively monitor or report the activities of subrecipients of the federal Independent Living Program (ILP) by June 30, 2001. To date, CDSS has taken the following steps to address this finding:

- The “All County Letter” process is being used to keep counties informed on the requirements associated with their Annual ILP Narrative Report including federally required information, quantifying their outcomes, and fiscal reporting.
- The Annual ILP Narrative Report is serving as a monitoring tool for assuring statewide compliance with federal ILP requirements.
- Counties are providing in-depth, quantifiable descriptions of their ILP program activities, services, outreach efforts to reach emancipated youth up to age 21, transitional housing placement efforts, and collaborative efforts with other agencies.
- Lastly, counties that do not submit their Annual ILP Narrative Report in a timely fashion are contacted, reminded of the requirement, and offered technical assistance.²³

Reference Number: **99-14-5**

Federal Catalog Number: 93.563

State Administering Department: Department of Social Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Special Tests and Provisions. The Department of Social Services (CDSS) does not always require corrective action to ensure that the central registry processes newly received interstate child support enforcement cases within the required ten-day time frame. The Department of Justice (DOJ) performs central registry duties on behalf of CDSS. The Child Support Program Assistance Bureau (CSPAB) at CDSS performs annual reviews of DOJ’s administration of the central registry.

However, for its review of the period May 1997 through April 1998, CSPAB did not require that DOJ take corrective action when it found that DOJ's method of tracking interstate child support enforcement cases did not ensure that cases were processed within ten days.

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

Status of Corrective Action: Partially corrected. Effective January 1, 2000, audit finding follow-up responsibility transferred to the newly created Department of Child Support Services (DCSS). The Department of Justice provided DCSS with a corrective action plan on January 21, 2000. DCSS reviewed and approved the plan. The California Central Registry confirmed steps were taken to implement the solutions described in this plan. A follow-up DCSS field review is scheduled for September 2000, to verify implementation of these solutions and to ensure interstate cases are processed timely.

Reference Number: **99-14-7**

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 over Medicaid provider agreements and disclosures. Specifically, for 2 of the 30 provider files reviewed, DHS 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, it could not be ascertained whether DHS had obtained the required agreements and disclosures for these two providers before paying their Medicaid claims.

Additionally, although no specific schedule was found for renewing these agreements, review of the 28 agreements on file revealed that DHS could improve its procedures by periodically renewing agreements. Specifically, 20 of the agreements reviewed were more than five years old; ten were more than ten years old. Consequently, DHS is relying on outdated provider information.

Status of Corrective Action:

Partially corrected. DHS requires providers to submit applications for authorization to become Medi-Cal providers. Claims submitted for services provided under the Medi-Cal program also require a provider signature.

As a result of legislation, DHS developed expanded provider agreements, which require a more comprehensive application and disclosure statement, and are being used for all new enrollments as well as re-enrollments. Additionally, unique applications have been developed for the various provider types. All applications are scanned into DHS' database once they are processed.

The DHS has begun the process of re-enrolling existing providers. Because there are 130,000 existing active Medi-Cal providers, the Department prioritized its re-enrollment process and began re-enrolling higher risk providers in June 1999.²⁴

Reference Number:

99-14-8

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), 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 (DOJ). Specifically, DHS did not perform a preliminary investigation for the five cases reviewed before it referred them to DOJ, nor did it adequately monitor the cases it referred. DOJ could only confirm receiving three of those five cases. Moreover, five additional cases were selected to trace from DOJ's database to DHS' list of referrals, but only one could be located.

Status of Corrective Action:

Fully corrected.

Reference Number: **99-13-8**

Federal Catalog Number: 94.006

State Administering Department: California Conservation Corps

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: Subrecipient Monitoring and 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 subgrantees. These service districts and subgrantees submit invoices to CCC for reimbursement of program and administrative costs. CCC aggregates these expenses along with its own costs and submits monthly invoices to the Commission.

The CCC 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, two of the three service districts, and all four of the subgrantees, submitted invoices up to seven months late. As a result, CCC was unable to adequately monitor their fiscal activities. The untimely receipt of these underlying invoices also delayed CCC's submission of aggregate invoices to the Commission and its financial status report to the Corporation for National and Community Service.

Status of Corrective Action: Fully corrected.

ENDNOTES—AUDITOR COMMENTS

¹ The status of this issue remains unchanged. Please refer to reference number **2000-12-1** for additional information.

² We reviewed the status of this issue during our audit of fiscal year 1999-2000 and found that Education had not yet fully implemented adequate procedures to recover cash advances from participants of the food program who are no longer entitled to these funds. Therefore, we reported a similar weakness for this program. Please refer to reference number **2000-3-7** for additional information.

³ Although Education has corrected some of the weaknesses we identified in our audit of fiscal year 1998-99, it could not confirm the license status of sites participating in the food program in 9 of 58 counties. Therefore, we reported this weakness again in our audit of fiscal year 1999-2000. Please refer to reference number **2000-5-3** for additional information.

⁴ Although Education attempted to calculate the total state match amount only for the National School Lunch program for fiscal year 1999-2000, it reported a state match amount that included costs from another food program. As a result, we reported a similar weakness in our audit of fiscal year 1999-2000. Please refer to reference number **2000-7-2** for additional information.

⁵ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-13-1** for additional information.

⁶ Although Education partially corrected the weaknesses we identified in our audit of fiscal year 1998-99, it has not implemented procedures to ensure full compliance with federal regulations. Therefore, we reported a similar weakness in our audit of fiscal year 1999-2000. Please refer to reference number **2000-14-5** for additional information.

⁷ We reviewed the status of this issue during our audit of fiscal year 1999-2000 and found that Education had not implemented procedures to ensure full compliance with federal subrecipient monitoring requirements and, therefore, we reported a similar weakness. Please refer to reference number **2000-13-2** for additional information.

⁸ Fish and Game did not use in-kind contributions to meet its cost-sharing requirements for projects completed during fiscal year 1999-2000. Consequently, we did not verify whether it is maintaining adequate documentation of volunteer services and donated materials.

⁹ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-2-2** for additional information.

¹⁰ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-12-5** for additional information.

¹¹ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-13-7** for additional information.

¹² Developmental Services now obtains activity reports from the Office of Administrative Hearings (OAH) related to its work on the Early Intervention program. However, it does not

always use these reports to ensure that the OAH charges are appropriate. Please refer to reference number **2000-1-1** for additional information.

¹³ We reported similar weaknesses for the Vocational Education program in our audit of fiscal year 1999-2000. Additionally, although the Chancellor's Office took corrective action to address its subrecipient monitoring of the Tech-Prep program, it had not implemented procedures to ensure full compliance with federal cash management requirements. Therefore, we reported a similar weakness in our audit of fiscal year 1999-2000. Please refer to reference number **2000-3-1** and reference number **2000-3-2** for additional information.

¹⁴ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-5-1** for additional information.

¹⁵ The Chancellor's Office has corrected some of the weaknesses that we identified in our audit of fiscal year 1998-99. 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 1999-2000. Please refer to reference number **2000-9-2** for additional information.

¹⁶ Education is correcting the weaknesses that we identified in our audit of fiscal year 1998-99. 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 1999-2000. Please refer to reference number **2000-13-4** for additional information.

¹⁷ We reported a similar weakness in our audit of fiscal year 1999-2000. Please refer to reference number **2000-13-5** for additional information.

¹⁸ We reported a similar weakness in our audit of fiscal year 1999-2000. Please refer to reference number **2000-14-2** for additional information.

¹⁹ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-14-3** for additional information.

²⁰ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-9-3** for additional information.

²¹ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-10-1** for additional information.

²² We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-13-1** for additional information.

²³ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-12-7** for additional information.

²⁴ We reported a similar weakness during our audit of fiscal year 1999-2000. Please refer to reference number **2000-14-6** for additional information.

Agency's response provided as text only:

Department of Finance
Office of the Director
State Capitol, Room 1145
Sacramento, CA 95814-4998

March 9, 2001

Ms. Elaine M. Howle
State Auditor
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

STATE OF CALIFORNIA: INTERNAL CONTROL AND STATE AND FEDERAL COMPLIANCE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2000

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, 2000, 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 1999-00 Single Audit.

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