California State Auditor

BUREAU OF STATE AUDITS

State of California:

Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2005

April 2006
2005-002

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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

April 27, 2006 2005-002

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

Dear Governor and Legislative Leaders:

As required by California Government Code, Section 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, 2005.

This report concludes that the State did not materially comply with a requirement for one of its federal programs. Further, it continues to experience certain problems in accounting and administrative practices that affect its internal controls over financial reporting and over compliance with federal requirements. As a result, the State has not always complied with some state and federal regulations. Although none of the problems we identified are significant to the State's financial statements, 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

TABLE OF CONTENTS

AUDITOR'S SECTION

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

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

The Governor and the Legislature of
the State of California

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California as of and for the year ended June 30, 2005, which collectively comprise the State of California's basic financial statements, and have issued our report thereon dated February 28, 2006. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 85 percent, 49 percent, and 51 percent, respectively, of the assets, net assets and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets, net assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 87 percent, 78 percent, and 85 percent, respectively, of the assets, net assets and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System, State Teachers' Retirement System and the University of California Retirement System that, in the aggregate, represent 92 percent, 94 percent, and 70 percent, respectively, of the assets, net assets and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

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

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 2005-19-1 through 2005-19-3.

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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the State of California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

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

February 28, 2006

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

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

The Governor and the Legislature of
the State of California

COMPLIANCE

We have audited the compliance of the State of California with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. 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 basic financial statements include the operations of the University of California and the California State University systems, as well as the California Housing Finance Agency, a component unit authority of the State. However, these entities are not included in the accompanying schedule of findings and questioned costs or schedule of federal assistance for the year ended June 30, 2005. The University of California and the California State University systems, and the California Housing Finance Agency, which reported expenditures of federal awards totaling $3.1 billion and $1.2 billion, and $74.1 million, respectively, engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence

about the State of California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit 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.

As described in item 2005-8-4 in the accompanying schedule of findings and questioned costs, the State of California did not comply with requirements regarding period of availability that are applicable to its Centers for Disease Control and Prevention—Investigations and Technical Assistance (CFDA Number 93.283). Compliance with such requirements is necessary, in our opinion, for the State of California to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2005. The results of our auditing procedures also 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 that none of the reportable conditions described above is a material weakness.

SCHEDULE OF FEDERAL ASSISTANCE

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2005, and have issued our report thereon dated February 28, 2006. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 85 percent, 49 percent, and 51 percent, respectively, of the assets, net assets and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets, net assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 87 percent, 78 percent, and 85 percent, respectively, of the assets, net assets and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System, State Teachers' Retirement System and the University of California Retirement System that, in the aggregate, represent 92 percent, 94 percent, and 70 percent, respectively, of the assets, net assets and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

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

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

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

BUREAU OF STATE AUDITS

Philip Jelicich

PHILIP J. JELICICH, CPA
Deputy State Auditor

February 28, 2006

Attachment

ATTACHMENT

The compliance issues are:

2005-1-1
2005-2-1
2005-2-2
2005-2-3
2005-2-4
2005-3-1
2005-3-2
2005-3-4
2005-3-5
2005-3-6
2005-5-1
2005-5-3
2005-8-1
2005-8-2
2005-8-3
2005-8-4
2005-12-1
2005-12-2
2005-12-3
2005-12-6
2005-13-1
2005-13-2
2005-13-3
2005-13-4
2005-13-6
2005-14-1
2005-14-3
2005-14-4
2005-14-5

The internal control over compliance issues are:

2005-2-2
2005-2-3
2005-3-1
2005-3-2
2005-3-3
2005-3-4
2005-3-5
2005-3-6
2005-5-2
2005-7-1
2005-7-2
2005-9-1
2005-9-2
2005-9-3
2005-12-2
2005-12-3
2005-12-4
2005-12-5
2005-12-6
2005-13-2
2005-13-3
2005-13-6
2005-14-1
2005-14-2
2005-14-3

Schedule of Findings and Questioned Costs

STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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 reports the auditor issued on compliance for major programs:	
Centers for Disease Control and Prevention—Investigations and Technical Assistance (93.283)	Qualified
All other major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	Yes
Dollar threshold used to distinguish between Type A and Type B programs	$70.3 million
Auditee qualified as low-risk auditee?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster of Programs
	Aging Cluster
	Child Care Cluster
	Child Nutrition Cluster
	Employment Services Cluster
	Food Stamp Cluster
	Highway Planning and Construction Cluster
	Medicaid Cluster
	Special Education Cluster
	Student Financial Aid Cluster
	Workforce Investment Act Cluster
10.550	Food Donation
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
14.239	HOME Investment Partnerships Program
16.575	Crime Victim Assistance
17.225	Unemployment Insurance
66.468	Capitalization Grants for Drinking Water State Revolving Funds
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
84.287	Twenty-First Century Community Learning Centers
84.318	Education Technology State Grants
84.357	Reading First State Grants
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention—Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.658	Foster Care—Title IV-E
93.659	Adoption Assistance
93.767	State Children's Insurance Program
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.004 (formerly 16.007)	State Domestic Preparedness Equipment Support Program
97.036	Public Assistance Grants
97.039	Hazard Mitigation Grant

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

VARIOUS STATE DEPARTMENTS

Reference Number: 2005-19-1

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 amounts 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 or deferred in Internal Revenue Service (IRS) regulations. Examples of such taxable reimbursements include mileage compensation for commuting or personal travel between home and office when employees must work overtime (overtime or callback mileage), payment for employees' meals when they must work overtime or travel for 24 hours or less without lodging, and the value of personal use of state vehicles.

The State Controller's Office (Controller's Office) informs state departments through its Payroll Procedures Manual and its Payroll Letters of the IRS and state requirements for reporting taxable fringe benefits and taxable business expenses. State departments must report these employee fringe benefits and business expense reimbursements 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 state departments did not consistently ensure that all employees' taxable benefits or taxable business expense reimbursements were being reported to the Controller's Office. We reviewed the reporting of employee taxable benefits and reimbursements at four previously unreviewed state departments for fiscal year 2004-05 in addition to following up on concerns we reported for other departments for fiscal year 2003-04. We summarize the results of this testing in the table included in this finding.

We reviewed from 47 to 241 travel expense claims at each of the four additional entities to determine whether the departments properly reported employee taxable reimbursements. However, not all of these travel expense claims included claims for taxable benefits. Three of the four additional state departments that we reviewed, the Commission on Peace Officer Standards and Training (Commission), the State Personnel Board (Board), and the Secretary of State, did not always ensure that they met the reporting requirements the Controller's Office described.

For the additional four state departments we also determined if those departments that issued vehicle home storage permits reported the personal use of state vehicles to the Controller's Office. Two of the four departments that we reviewed, the Commission and the Board, did not always ensure that they reported the personal use of state vehicles to the Controller's Office or that staff using vehicles provided

adequate documentation to determine what trips constituted personal use. The Commission has asserted to us that it has only one state vehicle that is currently assigned to its executive director on a permanent basis.

In addition, three of the additional four state departments that we reviewed have not fully established written policies and procedures. In particular, the Commission has not developed written procedures to help ensure that it consistently and correctly reports taxable fringe benefits. The Board also has not established such policies, except for its policies concerning personal use of state vehicles. Moreover, the Secretary of State followed an unwritten policy to report the benefits once a year, in December. Although the Secretary of State had not fully developed written policies and procedures during the period that we reviewed, it subsequently developed written procedures that, if followed, appear adequate to ensure proper reporting to the Controller's Office.

We reported similar concerns for fiscal year 2003-04 at four other departments—the Department of Corrections and Rehabilitation (Corrections and Rehabilitation), the Department of Fish and Game (Fish and Game), the Department of Health Services (Health Services), and the Department of Industrial Relations (Industrial Relations). We performed a follow-up review of the reporting of employee taxable benefits and reimbursements at these state departments generally for January 2005 to June 2005, the period since our last review. We reviewed 180 travel expense claims at Fish and Game and 177 at Health Services and found that these departments again did not always report to the Controller's Office taxable fringe benefits arising from employees' travel and overtime expense reimbursements.

Our current review determined that Fish and Game, Health Services, and Corrections and Rehabilitation established written procedures that require the reporting to the Controller's Office of all taxable benefits arising from personal use of a state vehicle. We believe the procedures, if followed, are adequate to ensure compliance with the reporting requirements of personal use of state vehicles. However, Industrial Relations continued to lack written procedures to help ensure that it consistently and correctly reports taxable fringe benefits. In addition, Fish and Game still has not developed written procedures for taxable fringe benefits arising from employees' travel and overtime expense reimbursements. A Fish and Game accounting supervisor has asserted to us that Fish and Game uses the Payroll Procedures Manual, which it believes is written very clearly, to serve as its policies and procedures. However, because Fish and Game continues to have inadequate reporting of taxable fringe benefits, we believe its own department-specific policies and procedures are warranted.

Industrial Relations, Health Services, and Corrections and Rehabilitation's Northern Region again also did not always ensure that they reported the personal use of state vehicles to the Controller's Office or that staff using vehicles provided adequate documentation to determine what trips constituted personal use. Additionally, Industrial Relations was unable to provide a complete list of employees with home storage permits and was able to provide mileage logs for only 33 of at least 76 employees using state vehicles.

Corrections and Rehabilitation's Northern Region believed that its agents were exempt from reporting personal use of state vehicles under certain circumstances based on its view of IRS regulations. However, to qualify as exempt, specific conditions must be satisfied and documented by actual facts and circumstances. For unmarked law enforcement vehicles to qualify, any personal use must be both authorized and incident to law enforcement functions, such as reporting directly from home to a stakeout or surveillance site, or to an emergency situation. Travel directly between home and headquarters would not be exempt from reporting. Further, Corrections and Rehabilitation's April 2004 procedure states that it cannot issue a blanket certification for all employee assigned vehicles nor automatically continue exemption status to a qualifying employee who later changes his assignment and no longer meets the Internal Revenue Services' criteria. The procedure also states that routine commuting by a peace officer in an unmarked law enforcement vehicle between home and headquarters does not qualify for exemption from reporting commute miles as a taxable benefit. Moreover, its July 2005 procedure states that all use of an unmarked law enforcement vehicle that is not incident to a stakeout or surveillance site, or to an emergency situation must be reported. Our review of the Northern Region's documents, such as home storage permits and related vehicle mileage logs, found personal commutes that were not reported to the Controller's Office, even though the documents show clear and consistent use of the vehicles for commuting.

Table

Reportable Items Reviewed That Were Not Reported to the Controller's Office in Fiscal Year 2004-05

State Agency	Total Number of Travel Expense Claims With Reportable Items Reviewed	Items Not Reported		
		Overtime/ Callback Mileage	Meals for Travel of 24 Hours or Less/Overtime Meals	Employees with Personal Use of State Vehicle*
Commission	5**	0	5	1
Corrections and Rehabilitation	N/A	N/A	N/A	5***
Fish and Game	15	0	49	2
Health Services	21	N/A	6	8
Industrial Relations	N/A	N/A	N/A	4
Secretary of State	89	6	17	0
State Personnel Board	13	0	9	4
TOTALS	**143**	**6**	**86**	**24**

Note: Some travel expense claims contained more than one type of reportable item.
N/A: We did not review this area because, in our prior year audit, we did not report noncompliance.
*Personal use of state vehicles is reported on documents separate from travel expense claims.
**Because the Commission stated that it did not report any benefits during fiscal year 2004-05, we reviewed a limited number of travel expense claims to substantiate that benefits exist.
***Because corrections and rehabilitation's northern region believed that its agents were exempt from reporting personal use of state vehicles, we reviewed a limited number of employees' home storage permits and related mileage logs to substantiate that benefits exist.

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

CRITERIA

The Controller's Office Payroll Procedures Manual, sections 120 through 176, provides procedures for reporting to the Controller's Office taxable fringe benefits and business expense reimbursements provided to state employees. These procedures are based on federal and state tax laws. The following benefits and payments included in this manual relate to our testing of agency compliance:

- Section 129.1 states that the use of state-owned or state-leased vehicles for personal commutes between home and office is reportable taxable income.

- Section 129.1.3 describes an IRS exemption for unmarked law-enforcement vehicles if the use of the vehicle is authorized by the department owning the vehicle and employing the officer and is to law enforcement functions and the actual facts and circumstances are documented.

- Section 130.1.2 states that reimbursements to employees for commuting expenses, such as for expenses from commuting or personal travel between home and office, is considered taxable income. This includes callback and overtime mileage.

- Section 143.3 states that overtime meal compensation is reportable and constitutes taxable income.

- Section 145.1.2 states that meal reimbursements for travel of 24 hours or less without lodging is taxable income. Simply stated, if an employee receives reimbursement for meals during travel in which there was no overnight stay, this reimbursement is taxable income.

RECOMMENDATION

All state departments should ensure that they have procedures established and implemented to properly report taxable fringe benefits and taxable employee business expense reimbursements.

DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS

The Commission concurs with our finding and states that it is in the process of developing policies and procedures.

The Secretary of State concurs with our finding. It states that it has implemented procedures to report taxable fringe benefits on a monthly basis as required, and began monthly reporting effective January 2006. It also states that it will continue to update its policies and procedures to ensure full compliance with applicable rules and regulations.

The Board concurs with our finding and states that it will develop written procedures to provide guidance on properly reporting taxable fringe benefits and taxable business reimbursements. The board also states that it will distribute these procedures to all staff with assignments in this area and provide training.

Corrections and Rehabilitation concurs with our finding and indicates that it has issued Financial Information Memo 2005-09 and implemented a process to report personal use of qualified law enforcement vehicles. Among other steps, the process requires a record of facts and circumstances to determine personal use. Corrections and Rehabilitation expresses its commitment to enforce this process. It further states that periodic spot compliance reviews will be conducted to ensure that staff appropriately completes the required forms.

Fish and Game concurs with our finding and states that it will develop and implement procedures to properly report to the Controller's Office taxable fringe benefits arising from personal use of state-owned or state-leased vehicles, and overtime reimbursements. In addition, Fish and Game will advise its personnel of withholding and reporting obligations associated with these benefits.

Health Services concurs with our findings and states that, by June 30, 2006, it will implement the California Automated Travel Expense Reimbursement System that will automatically report taxable items from travel expense claims for all employees. In addition, Health Services states that, in May 2005, it implemented a system that requires all employees to report personal use of state-owned or state-leased vehicles.

Industrial Relations concurs with our finding. It intends to implement written procedures, by early next fiscal year, to ensure that taxable fringe benefits are properly reported.

DEPARTMENT OF FISH AND GAME

Reference Number: 2005-19-2

CONDITION

For the fiscal year ending June 30, 2004, we reported that the Department of Fish and Game (Fish and Game) had inadequate procedures for accounting and reporting its real property. We noted that Fish and Game's Land and Facilities Branch is

responsible for reporting information on land to the Department of General Services (General Services) to be included in the Statewide Property Inventory and for reconciling with the Statewide Property Inventory. Its Fiscal and Administrative Services Branch, Property Unit had the same responsibilities for buildings and improvements. Its accounting unit reported real property information to the State Controller's Office (Controller's Office) for inclusion in the State's financial statements. Fish and Game also accounted for and reported real property information for the Wildlife Conservation Board (board), using the same agency number for both agencies in the Statewide Property Inventory.

For fiscal year 2001-02, the two branches did not reconcile their data with the Statewide Property Inventory. Further, the two branches and the accounting unit did not reconcile the property listings and Statement of Changes in General Fixed Assets. Also, the accounting unit reported incorrect information to the Controller's Office. Specifically, we determined the following:

- For the year ending June 30, 2002, Fish and Game's property listings for itself and the board had land of approximately $490.1 million, while the Statewide Property Inventory recorded approximately $97.6 million more.
- As of June 30, 2002, the Statements of Changes in General Fixed Assets reported land, buildings, and improvements approximately $105.3 million greater than the property listings showed. For the year ended June 30, 2002, the accounting unit reported real property of approximately $164.3 million that may not have represented completed asset purchases.
- The accounting unit overstated land additions in the board's Statement of General Fixed Assets by at least $2.5 million by including cash grants given to a non-state entity. For fiscal year 2002-03, Fish and Game inappropriately reported $65.9 million in cash grants as land additions and understated the gift value of land by $46.1 million.

For fiscal years 2003-04 and 2004-05, Fish and Game indicated to us that it had not fully implemented our prior recommendations. As a result, we did not conduct additional audit work except to determine whether Fish and Game currently reported selected changes to its real property inventory.

Unless Fish and Game reconciles its property listings to the Statewide Property Inventory, reconciles its property listings to its Statement of General Fixed Assets, and reports complete and accurate information to the Controller's Office and General Services, the State's financial statements will be misstated and the Statewide Property Inventory will be incomplete and inaccurate.

CRITERIA

The California Government Code, Section 11011.15, requires each agency to furnish General Services with a record of each parcel of real property that it possesses and to update its real property holdings by July 1 each fiscal year. It also requires General Services to maintain a complete and accurate inventory of all real property held by the

State. General Services includes Fish and Game's information in the Statewide Property Inventory. In addition, the State Administrative Manual, Section 7924, requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

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

RECOMMENDATIONS

To ensure that it reports complete and accurate information for the State's financial statements and the Statewide Property Inventory, Fish and Game should:

- Annually reconcile amounts it reports for the Statewide Property Inventory with its and the board's Statements of Changes in General Fixed Assets.
- Report in the Statement of Changes in General Fixed Assets real property that has been acquired on or before the end of the fiscal year.
- Report in the Statement of Changes in General Fixed Assets only real property acquired for the State.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Fish and Game concurs with our finding and indicates that it has made progress in addressing the recommendations, but additional time is necessary for full implementation. Specifically, Fish and Game states that it capitalized $327.6 million of the backlog in property listings during fiscal year 2004-05, established procedures for land capitalization, and started a training program for its staff. Fish and Game also states that it plans, among other tasks, to capitalize all land acquisition costs, including donations, mitigation and grants; develop procedures to compare asset reports on a monthly basis; and reconcile differences between its and General Services' Statewide Property Inventory databases. Fish and Game anticipates that its research and data collection to reconcile the various databases will take a minimum of twelve months. Once the reconciliation is complete, it intends to assign one staff the task of developing a plan to bring current and maintain all databases by June 30, 2007. In addition, Fish and Game states that it will post donated land as an asset immediately upon the receipt of the land acquisition memo from the board. Finally, Fish and Game states that a recommendation for change in procedure for non-state assets has been submitted to management.

DEPARTMENT OF PARKS AND RECREATION

Reference Number: 2005-19-3

CONDITION

For the fiscal year ending June 30, 2004, we reported that the Department of Parks and Recreation (Parks and Recreation) continued to have inadequate procedures to account for and report its real property. Specifically, its acquisition unit had not reported $3.4 million in ancillary costs for the real property acquired between July 2001 and June 2002, and it did not report ancillary costs to the Department of General Services (General Services) in a format that allows input into the Statewide Property Inventory system. In addition, Parks and Recreation did not reconcile the amounts reported in the Statewide Property Inventory system with its records. In December 2004, in an attempt to reconcile the two sources, Parks and Recreation acknowledged an unexplained difference of approximately $167 million between its and General Service's Statewide Property Inventory account balances for land. In its corrective action plan, Parks and Recreation had stated that it would work with General Services to develop a process to include ancillary costs in the Statewide Property Inventory system and that it had initiated a process to reconcile the amounts reported in the Statewide Property Inventory system with its Statement of Changes in General Fixed Assets.

In December 2005 we followed up with Parks and Recreation to determine whether it reports ancillary costs to General Services for inclusion in the Statewide Property Inventory system. Parks and Recreation informed us that it had not reported the $3.4 million in ancillary costs of real property acquired in fiscal year 2001-02, and still does not report ancillary costs to General Services in a format that allows input into the Statewide Property Inventory system. In December 2005 Parks and Recreation also informed us that it has not fully implemented our prior years' recommendation to reconcile the amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets.

Unless Parks and Recreation reports complete and accurate ancillary cost information to General Services, and periodically reconciles its Statement of Changes in General Fixed Assets with the Statewide Property Inventory records, the State's financial statements may be misstated and the Statewide Property Inventory will be incomplete and inaccurate.

CRITERIA

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

The California Government Code, Section 11011.15, requires each agency to furnish General Services with a record of each parcel of real property that it possesses and to update its real property holdings by July 1 each fiscal year. It also requires General Services to maintain a complete and accurate inventory of all real property held by the State. General Services includes Parks and Recreation's information in the Statewide Property Inventory. In addition, the State Administrative Manual, Section 7924, requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

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

RECOMMENDATIONS

We recommend that Parks and Recreation take the following actions:

- Report ancillary costs to General Services in a form acceptable for inclusion in the Statewide Property Inventory.
- Reconcile the amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Parks and Recreation concurs with our findings and indicates that its acquisition and audit staff have agreed on a policy and method of compiling and reporting ancillary costs to General Services' Statewide Property Inventory in a format acceptable to their system. It expects to compile and report ancillary costs for fiscal years 2001-02 through 2004-05 before June 30, 2006. Parks and Recreation also indicates that it has completely reconciled its structures assets and continues to reconcile the land assets, resulting in an unexplained difference of $104.9 million as of January 2006. Parks and Recreation believes that, due to the extent of research necessary for each item to be reconciled, it will take a long time to complete its reconciliation.

Compliance Issue Related to All Federal Grants

IDENTIFYING PROGRAM EXPENDITURES

Reference Number:	2005-12-1
Federal Program:	All Programs
Category of Finding:	Reporting

CRITERIA

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

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

CONDITION

Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule (beginning on page 121) 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 they did not exceed the Type A threshold.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Finance states that the State's accounting system will require substantial modification to compile expenditure information to meet all federal and State requirements. Because the State has limited resources, Finance has no plans at this time to enhance the State's accounting system or to implement a new system.

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

U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2005-13-1
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Numbers and Calendar Years Awarded:	7CA700CA7; 2004 7CA700CA7; 2005
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Services

CRITERIA

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

The Code of Federal Regulations, Title 7, Section 246.19(b)(4), requires the State to promptly notify a local agency of any finding resulting from a monitoring review, and the State must require the local agency to submit a corrective action plan within 60 days of receipt of the State's findings. This section also requires the State to monitor the local agencies' implementation of the corrective action plan to ensure that subrecipients take appropriate and prompt corrective action. The Department of Health Services' (Health Services) WIC Program manual requires local agencies to submit the corrective action plan within 60 days of receiving Health Services' letter of findings and recommendations.

CONDITION

Health Services does not ensure the prompt resolution of all findings resulting from its monitoring reviews of local agencies' administration of their WIC programs. For four of the 35 local agencies with findings that we reviewed the corrective action plans were not submitted until more than 180 days after the exit conference, which marks the end of the review. One of these was submitted 361 days after the exit conference. Both Health Services and local agencies contributed to delays. For example, although Health Services requires local agencies to submit a corrective action plan within 60 days after they receive a letter of finding, it can take Health Services several weeks to issue these letters. In particular, Health Services took more than 90 and as much as 137 days after the exit conferences to send these letters to seven of the 35 local agencies. Additionally, nine of the 35 local agencies did not submit their corrective

action plans within 60 days after receipt of the letters. The delays ranged from 11 to 281 days, averaging 64 days late. As a result of these delays, Health Services cannot always ensure that its subrecipients correct deficiencies promptly.

According to the section chief responsible for the monitoring reviews, beginning in July 2005, Health Services has issued letters of findings more promptly because it has streamlined its process for reviewing and approving the letters of findings. Additionally, according to the section chief responsible for ensuring that local agencies take appropriate corrective action, local agencies sometimes are delayed in providing a corrective action plan because they have other priorities or do not have staff with the necessary experience in preparing a corrective action plan. Thus, Health Services' staff often will assist the local agencies in preparing the corrective action plan, which may take longer than the 60 days.

RECOMMENDATIONS

Health Services should continue to improve its efforts to issue letters of findings promptly. Additionally, it should continue to work with the local agencies to ensure that they submit corrective action plans by the required 60 days.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services agrees with the audit recommendations. In response to last year's audit finding, Health Services streamlined its process and since July 2005 is sending letters of findings in less than 90 days following the completion of performance reviews. Health Services appreciates the Bureau of State Audits' recognition of this accomplishment.

Health Services, on the other hand, was not successful in all attempts to obtain corrective action plans (CAP) within the required 60 days due to staffing vacancies. Health Services recently filled several vacancies in the WIC Branch and anticipates it will have the staff resources to enforce the policy requiring local agencies to submit their CAP within 60 days following issuance of findings. Enforcement will include closely tracking and monitoring local agencies subject to corrective action, clarifying local agency responsibilities to complete the CAP, and enforcing contract provisions regarding failure to perform. Health Services plans to implement these steps by April 1, 2006.

U.S. DEPARTMENT OF JUSTICE

Reference Number:	2005-12-3
Federal Catalog Number:	16.575
Federal Program Title:	Crime Victim Assistance
Federal Award Numbers and Calendar Years Awarded:	2000-VA-GX-0006; 2000 2001-VA-GX-0006; 2001 2002-VA-GX-0006; 2002 2003-VA-GX-4025; 2003 2004-VA-GX-0009; 2004
Category of Finding:	Reporting
State Administering Department:	Governor's Office of Emergency Services

CRITERIA

Our review of the Crime Victim Assistance program identified the following compliance requirements related to reporting:

The Code of Federal Regulations, Title 28, Section 66.20, requires the Governor's Office of Emergency Services (Emergency Services) to maintain accounting records to track properly and report accurately financial activities related to federal grants. Additionally, Section 66.41 requires Emergency Services to submit financial status reports showing all program outlays and program income. Lastly, the final program guidelines established by the U.S. Department of Justice's Office of Justice Programs require Emergency Services to periodically submit specific grant performance data for the Crime Victim Assistance program.

CONDITION

Certain reports Emergency Services submitted in fiscal year 2004-05 do not comply with applicable reporting requirements. For instance, amounts on Emergency Services' final financial status report for the 2002 grant year do not agree with the accounting records. In an April 2005 letter accompanying the final financial status report, Emergency Services told the U.S. Department of Justice that several amounts in the final financial status report were not derived from its accounting records or those of the Office of Criminal Justice Planning, which administered the Crime Victim Assistance program until December 2003. Rather, Emergency Services based amounts in the final financial status report on direction and data provided by the U.S. Department of Justice. As we reported last year, Emergency Services assumed administration of the Crime Victim Assistance program from the Office of Criminal

Justice Planning. Emergency Services stated that it found many of the program's accounting records to be inaccurate or non-existent. Emergency Services then contracted with the Department of Finance to reconstruct the accounting records. Although the Department of Finance has completed its work, Emergency Services had not completed, as of January 2006, posting the adjustments required by the reconstruction. According to the chief of its Fiscal Management Branch, Emergency Services plans to intensify its focus on posting the adjustments in January 2006 and will establish by the end of January a completion date for this work. Emergency Services plans to develop a revised final financial status report for the 2002 award year if the U.S. Department of Justice requires it. Because the unposted transactions could apply to funds from the 2000 and 2001 award years, revised final financial status reports for these two award years also may be necessary.

In another instance, a performance report submitted by Emergency Services to the U.S. Department of Justice included incorrect performance data on an annual report covering federal fiscal year 2003-04. Among other things, Emergency Services is required to provide data on this performance report showing the number of victims served in a variety of categories. Of the five categories we reviewed, we determined that Emergency Services reported materially inaccurate data for one category. Specifically, Emergency Services' performance report showed that 95,989 victims received criminal justice support and advocacy services. However, the supporting documentation showed that these services were provided to 275,097 victims, a difference of 179,108. This error occurred because of weak controls to ensure the report's accuracy. For instance, according to the chief of its Victim Services Branch, Emergency Services has no written procedures that describe how it will compile this report.

RECOMMENDATIONS

When Emergency Services completes the posting of the adjustments necessary from the reconstruction of the program's accounting records, it should submit revised final financial status reports, if necessary. Also, Emergency Services should implement sufficient internal controls to ensure that performance data included in the annual reports submitted to the federal government are accurate.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services agrees with the financial status report finding and recommendation. Upon completion and posting of all reconstruction adjustments, Emergency Services will revise and or prepare all required federal financial status reports, as needed.

Regarding performance reports, Emergency Services agrees with the finding. The corrective action is as follows:

1. Emergency Services has requested that our project manager for the federal Victims of Crime Act (VOCA) provide training to staff on how to complete the VOCA state performance report. Specifically, training is required on interpreting the VOCA definitions as they relate to the services provided and victims served with VOCA funds in California.

2. A representative from each section has volunteered to be on a committee to correlate the statistics requested on our progress reports with the appropriate categories and definitions requested on the VOCA state performance report. A matrix will be developed indicating each of the VOCA categories/definitions with the corresponding objective information from our progress reports.

3. Instructions for staff are also being developed on how the data is to be collected and reported for the VOCA state performance report. This will insure consistency among sections.

4. The Victim Services Branch has instituted internal controls regarding the documentation that is retained to support the data supplied on the VOCA state performance report. In 2003-04 these controls were lacking and some of the supporting documentation was missing from the branch files. Now, this supporting documentation is not only retained at the branch level but also by the federal funds project manager.

U.S. DEPARTMENT JUSTICE
U.S. DEPARTMENT OF HOMELAND SECURITY

Reference Number:	2005-13-2
Category of Finding:	Subrecipient Monitoring
State Administering Departments:	Governor's Office of Emergency Services[1] Governors' Office of Homeland Security

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

CRITERIA

Our review of the Crime Victim Assistance, State Domestic Preparedness Equipment Support, Public Assistance Grants, and Hazard Mitigation Grant programs identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), requires subrecipients spending $500,000 or more in federal assistance in fiscal years ending after December 2003 to submit audit reports to the State within nine months of the end of their fiscal year. The State is responsible for notifying subrecipients of the applicable audit requirements. Additionally, the State requires subrecipients to submit audit reports to the State Controller's Office (Controller's Office) or the appropriate state department so corrective action can be taken on reported deficiencies. If an audit finds that a subrecipient has failed to comply with federal program requirements, OMB Circular A-133 also requires the State to issue a management decision regarding the resolution of the audit finding within six months of receiving the audit report and to ensure that the subrecipient proceeds with prompt corrective action.

CONDITION

The Governor's Office of Emergency Services (Emergency Services) did not adequately monitor subrecipients of funds for the Crime Victim Assistance, State Domestic Preparedness Equipment Support, Public Assistance Grants, and Hazard Mitigation Grant programs. Specifically, during fiscal year 2004-05, Emergency Services did not ensure that it received or reviewed audit reports submitted by private nonprofit organizations that expended $500,000 or more in federal assistance in fiscal year 2003-04 and therefore could not follow up on identified findings. Further, Emergency Services did not follow up on findings for audit reports provided by the

[1] Until March 2005, the Governor's Office of Emergency Services administered the State Domestic Preparedness Equipment Support Program. Beginning in March 2005, the Governor's Office of Homeland Security took over this program's administration.

Controller's Office regarding local governmental subrecipients that spent $500,000 or more in federal assistance in fiscal year 2003–04. The Controller's Office receives audit reports for local governmental entities and, if the reports contain findings, forwards copies to the state agencies responsible for administering the programs to follow up with the local governmental subrecipients to ensure that identified weaknesses are corrected.

The number of unreviewed OMB Circular A-133 audit reports and findings varies depending on the grant. For example, Emergency Services' management auditor who is responsible for reviewing audit reports and findings related to the Crime Victim Assistance program estimated there was a total backlog of 500 unreviewed reports, including audit reports submitted by nonprofit entities and findings from audit reports provided by the Controller's Office. There were about 18 boxes of unreviewed audit reports and findings for the Public Assistance Grants and Hazard Mitigation Grant programs, according to the chief of Emergency Services' Grants Management Branch, but Emergency Services could not determine the exact amount.

Because Emergency Services did not ensure that audit reports were received and did not review audit reports it did receive, it could not ensure that subrecipients were complying with federal program requirements or that weaknesses identified in the audit reports were corrected promptly. According to the chief of its Grants Management Branch, Emergency Services has not reviewed the OMB Circular A-133 reports due to lack of staffing.

Finally, Emergency Services did not follow up adequately on the results of site visits it conducted for subrecipients of funds from the Crime Victim Assistance program. Specifically, for eight of the 10 on-site monitoring reviews we examined, we found that Emergency Services did not obtain corrective action plans from subrecipients or did not document whether it had followed up with subrecipients to ensure that deficiencies identified during the site visits were corrected. Consequently, Emergency Services could not ensure that its subrecipients corrected deficiencies promptly.

RECOMMENDATIONS

Emergency Services and the Governor's Office of Homeland Security (Homeland Security) should review nonprofit subrecipients' audit reports promptly. Further, they should ensure that identified weaknesses are corrected promptly.

DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS

***Emergency Services**:*

Emergency Services agrees that it did not fulfill all OMB Circular A-133 pass-through agency requirements for the Crime Victim Assistance, Public Assistance and Hazard Mitigation Grants. Emergency Services does not have adequate staffing levels to perform all required OMB Circular A-133 subrecipient monitoring for these grants.

Emergency Services will continue to request additional positions for this activity and the finding will remain uncorrected until adequate positions are received.

Additionally, Emergency Services agrees that it did not fulfill all OMB Circular A-133 pass-through agency requirements for the State Domestic Preparedness Equipment Support program for the period July 1, 2004, through March 31, 2005. Homeland Security assumed all programmatic and administrative responsibility for this grant on April 1, 2005. Consequently, Emergency Services cannot provide a response for Homeland Security's actions performed on or after April 1, 2005, and Emergency Services does not have the responsibility for implementing a corrective action plan for the finding as it relates to this grant.

Regarding follow up on site visits, immediately after the Victim Services Branch manager received notification from the Bureau of State Audits (BSA) of the finding in November 2004, the following corrective action was taken:

First, although the former Office of Criminal Justice Planning (OCJP) had a Grants Management Information System (GMIS) that tracked the date of site visits, it did not track satisfactory resolution of deficiencies that were identified during site visits. Adding this element to GMIS would have been an easy fix; however, after OCJP was abolished effective January 1, 2004, and became a division under Emergency Services, GMIS was no longer maintained. As a result, the Branch developed a new tracking process through an Excel spreadsheet as a management information tool. Staff were to enter and update site visit information for fiscal year 2004/05 for each grant recipient on the spreadsheet. Once the BSA finding regarding site visits surfaced, the following items were added to the Excel spreadsheet for tracking purposes: "Last Site Visit, Form Completed, Corrective Action Plan Status, Scheduled Visits, and Last Monitoring."

Second, managers developed or revised independent methods of tracking and managing information within their section regarding site visits, some of which were more detailed than the Branch spreadsheet. For instance, one section developed a form entitled, "Site Visit Report Check List" which tracks the following information: "Grantee, Site Visit Date, Letter Sent to Grantee, Report Given to Section Chief, Correction Action Plan Due Date, Corrective Action Received Approved, and Reminder Contact." It should be noted that the Victim Services Branch intends to consolidate the independent methods each section is using into one working document and process for consistency purposes, and staff from each section are coordinating this effort.

Third, as a consequence of Senate Bill 914 (added by Chapter 840, Statutes of 2004), and codified as Penal Code sections 13823.15, 13823.16 and 13837.1, Staff Instructions were developed for the Domestic Violence Assistance and Rape Crisis Programs regarding site visits. The instructions specify how to prepare for a site visit to include entering the scheduled date on the spreadsheet; instructions on how to cancel and reschedule a site visit and entering this information on the spreadsheet; conducting the site visit and identifying issues found to be deficient; sending a follow-up letter within 60 days summarizing the results of the site visits that identifies the deficiencies that need to be addressed; reasons the deficiencies must be

addressed; corrective action required of the grant recipient; timeline by which the corrective action must be completed; Emergency Services review process to ensure corrective action has been completed within six months (which may include material/document submission and/or future on-site review); sample documents that may be of assistance in correcting identified deficiencies with the letter; and the submission of the letter and completed site visit form to the supervisor for review, signature and date. The Staff Instructions also provide information on follow-up and satisfactory completion of corrective action in which within 30 days of satisfactory completion, a letter is sent to the grant recipient indicating the project is in full compliance with all program requirements, and a copy is sent to the Emergency Services Grant File. Additionally, the Staff Instructions provide a format for the corrective action letter which includes three components for each finding, i.e. Finding; Citation; and Corrective Action.

These staff instructions and accompanying site visit forms are in draft format but have been reviewed by Emergency Services' Legal Counsel. The Domestic Violence and Sexual Assault sections have pilot tested them during site visits and the forms are being slightly revised. It is anticipated that final versions will be approved by March 2006. Should the forms be successful, it is anticipated they may be used for all of the programs in the Branch in the future.

Finally, despite the tools mentioned above, Emergency Services continues to have problems with adequately following up and documenting the results of site visits conducted. Although mechanisms are in place, the Victim Services Branch was staffed at approximately 70% capacity due to first a hiring freeze, and then a pause in hiring. Since the Branch was short staffed and had varying competing priorities, proper documentation and follow up with respect to site visits was sometimes neglected. This issue is currently being resolved as the Victim Services Branch is in the process of hiring staff, although staff retention has also become a new concern.

***Homeland Security**:*

For applicable audits ending March 2005, Homeland Security has made arrangements to receive the reports directly. Homeland Security has implemented procedures for reviewing the reports in order to identify any potential findings that affect it. If any findings are identified and are applicable to Homeland Security, a letter will be sent to the auditee requiring the submission of a corrective action plan within sixty days of the audit report date. Additionally, Homeland Security has implemented procedures for identifying whether or not a report has been received by the nine-month deadline. If a report is not received, Homeland Security will follow-up with a letter to the auditee requiring proof of exemption from the single audit requirement, or the submission of a report no later 15 days from receipt of notification. When deemed appropriate, Homeland Security will conduct a monitoring visit to ensure that identified weaknesses are corrected and issue a management decision within six months.

Although not required, Homeland Security has reviewed all audit reports released to it by Emergency Services; cataloged them by auditee, noted findings if applicable, and if required, receipt of corrective action plans.

U.S. DEPARTMENT OF JUSTICE

Federal Catalog Number:	16.575
Federal Program Title:	Crime Victim Assistance
Federal Award Numbers and Calendar Years Awarded:	2003-VA-GX-4025; 2003 2004-VA-GX-0009; 2004

U.S. DEPARTMENT OF HOMELAND SECURITY

Federal Catalog Number:	97.004 (formerly 16.007)
Federal Program Title:	State Domestic Preparedness Equipment Support Program
Federal Award Numbers and Calendar Years Awarded:	2002-TE-CX-0088; 2002 2002-TE-CX-0133; 2002 2003-TE-TX-0167; 2003 2003-MU-T3-0035; 2003 2004-GE-T4-0045; 2004

Federal Catalog Number:	97.036
Federal Program Title:	Public Assistance Grants
Year Awarded:	State fiscal year 2004-05

Federal Catalog Number:	97.039
Federal Program Title:	Hazard Mitigation Grant Program
Year Awarded:	State fiscal year 2004-05

U.S. DEPARTMENT OF LABOR

Reference Number: 2005-2-2

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) identified the following compliance requirements related to allowable costs and cost principles:

The U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87), Attachment A, Section C, states that for costs to be allowable under federal awards, they must be allocable to federal awards under the provisions of this circular. This is the case if the goods or services involved are chargeable or assignable to a grant in accordance with the relative benefits received. Section C also states that when an accumulation of indirect costs ultimately will result in charges to a federal award, a cost allocation plan will be required, as described in OMB Circular A-87, Attachments C, D, and E. OMB Circular A-87, Attachment E, Section A, states that indirect costs are incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved.

CONDITION

EDD allocated five of 10 operating expense and equipment (OE&E) transactions we reviewed, even though it had not obtained federal approval to do so as part of its indirect cost rate proposal. The five allocated transactions included OE&E expenses such as equipment rental, repair, and maintenance; software purchasing and maintenance; and data processing equipment. According to EDD, it used the allocation codes to distribute OE&E costs that it could not identify specifically with a particular federal program. Consequently, EDD should have included and distributed these allocated costs under its indirect cost rate proposal.

Costs related to the five test items totaled $131,481. Although we could not determine the amount of allocated costs charged to the federal programs we audited, according to EDD, in fiscal year 2004-05 it used 65 allocation codes to distribute personnel costs and 91 allocation codes to distribute OE&E costs totaling more than $59 million and $38 million, respectively. These allocated costs were not included in EDD's indirect cost rate proposal. In total, the allocated costs represented 8.5 percent of EDD's estimated total state operations expenditures of more than $1.1 billion for fiscal year 2004-05. When

EDD does not distribute indirect costs under an indirect cost rate proposal, it is less likely to demonstrate adequately that these costs are distributed in accordance with the relative benefits received by its various federal programs. We reported a similar finding during our audits for fiscal years 1998-99 through 2003-04.

In its indirect cost rate proposal for fiscal year 2005-06, EDD included documentation to support its use of allocated costs and, as of December 2005, is working with the U.S. Department of Labor to obtain approval of its indirect cost rate proposal.

RECOMMENDATION

EDD should continue to work with the U.S. Department of Labor to obtain approval of its fiscal year 2005-06 indirect cost rate proposal.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

On June 30, 2005, EDD submitted the indirect cost rate proposal for the period July 1, 2005 through June 30, 2006 to the U.S. Department of Labor Regional Cost Negotiator (RCN) for review and approval. The indirect cost rate proposal describes all cost pools that the EDD began using starting July 1, 2005. The use of cost pools eliminates the need for 151 allocation codes. The indirect cost rate proposal explains how costs will be distributed to programs in accordance with benefits received per federal regulations.

EDD met with RCN after the original submission. The RCN agreed with the basis for most of EDD's cost pool allocations, and identified only limited areas of concern. One concern was how EDD allocated shared tax-processing costs. The RCN believed there is a need to revisit the current "tax sharing ratio" considering the most recent agreement was established in fiscal year 1991-92. The RCN also believed EDD should allocate shared costs based on "character" count rather than "fields".

A revised indirect cost rate proposal was submitted on December 7, 2005, with the understanding EDD was still developing information regarding the tax-sharing ratio. EDD is in the process of capturing the character counts for the employer tax reporting forms. After the character count is gathered, we will be able to identify the percentages for the benefiting tax programs. We anticipate this analysis will be completed in February 2006.

U.S. DEPARTMENT OF LABOR

Federal Catalog Number:	17.207
Federal Program Title:	Employment Service
Federal Award Number and Calendar Year Awarded:	ES-13985-04-55; 2004

Federal Catalog Number:	17.801
Federal Program Title:	Disabled Veterans' Outreach Program
Federal Award Number and Calendar Year Awarded:	E-9-5-4-5085; 2004

Federal Catalog Number:	17.804
Federal Program Title:	Local Veterans' Employment Representative Program
Federal Award Number and Calendar Year Awarded:	E-9-5-4-5085; 2004

Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance
Federal Award Number and Calendar Year Awarded:	UI-14423-05-55; 2004

Federal Catalog Number:	17.258
Federal Program Title:	WIA Adult Program
Federal Award Number and Calendar Year Awarded:	AA137870450; 2004

Federal Catalog Number:	17.259
Federal Program Title:	WIA Youth Activities
Federal Award Number and Calendar Year Awarded:	AA137870450; 2004

Federal Catalog Number:	17.260
Federal Program Title:	WIA Dislocated Workers
Federal Award Number and Calendar Year Awarded:	AA137870450; 2004

Reference Number: 2005-12-5

Category of Finding: Reporting

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) identified the following compliance requirement related to reporting:

The Code of Federal Regulations, Title 29, Section 97.41(c), requires state agencies to submit an accurate SF 272 Federal Cash Transactions Report (SF 272) no later than 15 working days after the end of each quarter to the U.S. Department of Labor (Labor) for it to monitor cash advanced to the grantee and obtain disbursement information for the Labor grants.

CONDITION

EDD did not have a process in place to review the accuracy of a reconciliation it used to complete its quarterly SF 272 reports. As a result, EDD reported incorrect financial information in SF 272 reports for June 2005. Specifically, EDD overstated net disbursements and cash on hand by more than $870,000. This error occurred because EDD used inaccurate data when preparing the periodic reconciliation of its cash management system with its accounting system.

RECOMMENDATION

To ensure that it submits accurate financial information in its quarterly SF 272s, EDD should establish a process to review the reconciliation of its cash management system with its accounting system.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The reported "Net Disbursements" amount of $119,698,058.73 in the June 2005 SF 272 report was overstated by approximately $870,000. It is correct that the overstatement was due to an error on a reconciliation.

Since this error was discovered, EDD has taken steps to ensure the reconciliation is accurate. Staff will review existing reconciliation mechanisms (cell formulas) to "double-check" their work. Depending on what is displayed in the cell formulas, staff

can be alerted of potential discrepancies and a need to review the accuracy of the reconciliation. We believe this step will reduce the likelihood of errors on the supporting schedule and on the SF 272.

Please note that to the best of our knowledge, all information on SF 272 reports prior and subsequent to June 2005 was accurate.

U.S. DEPARTMENT OF LABOR

Federal Catalog Number:	17.207
Federal Program Title:	Employment Service
Federal Award Number and Calendar Year Awarded:	ES-13985-04-55; 2004

Federal Catalog Number:	17.801
Federal Program Title:	Disabled Veterans' Outreach Program
Federal Award Number and Calendar Year Awarded:	E-9-5-4-5085; 2004

Federal Catalog Number:	17.804
Federal Program Title:	Local Veterans' Employment Representative Program
Federal Award Number and Calendar Year Awarded:	E-9-5-4-5085; 2004

Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance
Federal Award Number and Calendar Year Awarded:	UI-14423-05-55; 2004

U.S. DEPARTMENT OF TRANSPORTATION

Reference Number:	2005-9-2
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction
Federal Award Number and Calendar Year Awarded:	N4520.180; 2005
Category of Finding:	Suspension and Debarment
State Administering Department:	Department of Transportation

CRITERIA

Our review of the Highway Planning and Construction program identified the following compliance requirements related to suspension and debarment:

The Code of Federal Regulations, Title 49, Section 18.35, requires that the State neither can make an award nor permit a subgrantee to make an award to any party that is debarred or suspended from participating in federal assistance programs. Further, Title 49, Section 29.300, states that before entering into a covered transaction with another party, recipients of federal funds must verify that the other party has not been suspended or debarred by checking the Excluded Parties List System (EPLS), collecting a certification from the other party, or adding a clause or condition to the covered transaction with that party. As its method of verification, the California Department of Transportation (Caltrans) includes a provision in its agreements with other parties, which serves as a certification that the other party has not been suspended or debarred (suspension and debarment provision).

CONDITION

Although Caltrans included the suspension and debarment provision in all seven of its agreements with private contractors that we tested, it did not always include such a provision in its agreements with local governments (subrecipients). Specifically, we found that Caltrans did not include a suspension and debarment provision in its agreements with five of the 12 subrecipients we tested. In response to a similar finding we reported during our fiscal year 2003-04 audit, Catrans stated that it implemented procedures in February 2005 to meet federal regulations by incorporating a suspension and debarment provision in its agreements with subrecipients. Of the 12 subrecipient agreements we tested, Caltrans entered into eight of them during or after February 2005, and all but one of the eight included the suspension and debarment provision. When Caltrans does not comply fully with its

verification procedures, it risks unknowingly allowing suspended and debarred parties to participate in the federal program. For the five subrecipients whose agreements did not contain the suspension and debarment provision, we reviewed the EPLS and found that none of them were suspended or debarred.

RECOMMENDATION

Before it enters into agreements with subrecipients Caltrans should verify that those subrecipients are allowed to participate in federal assistance programs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Caltrans has implemented corrective action and will continue to ensure sub-recipients have not been suspended or debarred from participating in federal assistance programs. In February 2005, as an interim measure, the Caltrans Division of Local Assistance, Office of Project Implementation (OPI), began inserting the following standard clause in all program supplement agreements (PSAs) with its federal fund recipient local agencies:

> "ADMINISTERING AGENCY certifies that neither the ADMINISTERING AGENCY nor its principals are suspended or debarred at the time of execution of this agreement. ADMINISTERING AGENCY agrees that it will notify the STATE immediately, in the event a suspension or debarment occurs after execution of this agreement."

To simplify the certification process in the future, OPI is developing a new Master Agreement for all federally funded projects. The revised Master Agreement, which is expected to be completed by June 2006, will include the above language and will be sent to all federal fund recipient agencies for execution. With the incorporation of the above certified language in the revised Master Agreement, it will no longer be necessary to include the clause in local agencies' future PSAs.

U.S. ELECTION ASSISTANCE COMMISSION

Reference Number:	2005-2-3
Federal Catalog Number:	39.011
Federal Program Title:	Election Reform Payments
Year Awarded:	State fiscal year 2002-03
Category of Finding:	Allowable Costs; Procurement and Suspension and Debarment
State Administering Departments:	Office of the Secretary of State

CRITERIA

Our review of the Election Reform Payments (ERP) program identified the following compliance requirements related to allowable costs and procurement and suspension and debarment:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87), states that for costs to be allowable and charged to a federally funded program, the costs must be necessary, reasonable, allocable to that program, and authorized or not prohibited under state or local laws or regulations. In addition, OMB Circular A-87, Attachment B, sections 15.a and 15.b, defines equipment as property costing $5,000 or more. It also specifies that the State cannot directly charge general-purpose equipment, such as office furnishings, to a grant without approval in advance from the federal awarding agency. OMB Circular A-87, Attachment B, Section 4.b, also states that audit costs unrelated to the Single Audit Act are allowable as a direct cost to an award if specifically approved by the awarding agency.

The Code of Federal Regulations, Title 41, Section 105-71.137, establishes that states shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local governments. The State Contracting Manual, Section 2.05, states that each contract must clearly express the maximum amount to be paid, and Section 3.17.2 states that local assistance contracts should be on a cost-reimbursement basis with a ceiling specifying the maximum dollar amount payable by the agency. In addition, the California Public Contract Code, Section 10295(a), requires that contracts for specific purposes entered into by any state agency are void unless and until approved by the Department of General Services (General Services). Moreover, according to the State Contracting Manual, Section 4.04, contracts for more than $50,000 require General Services' approval.

Further, OMB Circular A-87, Attachment B, Section 8.h, states that for employees expected to work solely on a single federal award, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program. However, for employees expected to work on more than one federal award or on one federal and one nonfederal award, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation that meets specific standards.

The Code of Federal Regulations, Title 41, Section 105-71.135, requires that the State neither make an award nor permit an award (subgrant or contract) to any party that is suspended, debarred, or otherwise excluded from participation in federal programs. Further, Title 41, Section 105-68.300, states that a recipient of federal funds must verify that its vendors and subrecipients are not excluded or disqualified. The State may accomplish this verification by checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration, collecting a certification from each vendor and subrecipient, or adding a clause or condition to the covered transaction with each vendor and subrecipient.

CONDITION

Although the Office of the Secretary of State (office) took steps to improve its administration of ERP funds during fiscal year 2004-05, it has not corrected some of the deficiencies we reported last year. As a result, some of the same types of problems we reported last year, such as questionable procurement and contracting practices, lack of support for personal service costs, and failure to obtain suspension and debarment certifications, continue to exist. We describe these deficiencies here.

The office used ERP funds to reimburse subgrantees for general-purpose equipment costing more than $29,000 without receiving prior approval from the federal awarding agency—the Election Assistance Commission—to do so. This included items, such as a photocopier, cameras, and a computer, with acquisition costs greater than $5,000 each. Also, the office did not receive approval from the Election Assistance Commission for audit costs it paid to a private consulting firm totaling more than $48,000. Charging ERP funds for equipment and audit costs that the awarding agency has not approved puts the office at risk that the federal government may ask for the repayment of some, if not all, of these funds.

Further, the office lacked adequate controls over the ERP funds it used to reimburse eight counties for the costs of security measures they incurred during the November 2004 general election. For instance, with six of the eight counties, the office entered into either agreements or Memorandums of Understanding (MOUs), which are a type of contract, that referred to allowable costs and included provisions for reimbursement. However, the agreements and MOUs did not specify the maximum dollar amount that the office would reimburse these counties as required by the State Contracting Manual. Further, without a maximum dollar amount in the agreements and MOUs, the office had no way of knowing if they required General Services' approval. Nevertheless, during fiscal year 2004-05, none of the six counties

with agreements or MOUs received reimbursements of more than $50,000. In total, the office reimbursed these six counties more than $144,000 in fiscal year 2004-05. In addition, the office reimbursed the remaining two counties more than $873,000 without provisions for reimbursement included in their respective agreements, which consisted merely of the counties' assertions that they would comply with the office's directions. When the office does not formalize in a contract all the terms and conditions for receiving federal funds, including the maximum amount to be paid, or does not obtain required approvals when necessary, it lacks assurance that the recipients will use the funds appropriately and that the State's interests are protected adequately.

In addition, the office could not provide support for the personal service costs it charged to ERP funds for one employee during fiscal year 2004-05. Specifically, from July through November 2004, the office charged 100 percent of this employee's salary and benefits to ERP funds, and for December 2004 it charged approximately 80 percent, totaling more than $37,000. However, the office could not provide us the required timesheet nor a time certification for this employee, who estimated 80 percent of her hours were spent working on ERP-related activities. Without the required time sheets, the office cannot ensure that the employee's salary and benefits it charged to ERP funds during fiscal year 2004-05 are accurate and allowable.

Finally, the office did not take any of the measures outlined in federal regulations to ensure that the two vendors and two subrecipients we reviewed had not been suspended or debarred from participating in federal programs before awarding them ERP-funded contracts. However, we reviewed the EPLS and determined that none of the vendors or subrecipients we reviewed was suspended or debarred.

RECOMMENDATIONS

To comply with federal regulations, as well as state laws and procedures, reduce the risk that ERP funds are spent inappropriately, and increase control and protection over ERP funds, the office should take the following actions:

- Seek prior approval from the federal awarding agency for capital expenditures relating to general-purpose equipment with a cost of $5,000 or more.
- Seek approval from the federal awarding agency for any audit costs charged to ERP funds as a direct cost, other than those associated with the Single Audit Act.
- Require that contracts, MOUs, and agreements have all necessary elements, including a maximum dollar amount to be paid, and submit them to General Services for approval when required.
- Ensure that time charged to the ERP program or any other federal program is supported with appropriate documentation, including time sheets or certifications.
- Implement a process to ensure its vendors and subrecipients are not suspended or debarred from doing business with the federal government before awarding contracts.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Recommendation:

Seek prior approval from the federal awarding agency for capital expenditures relating to general-purpose equipment with a cost of $5,000 or more.

Response:

Election Assistance Commission (EAC) staff stated that the EAC would not require prior approval of voting systems procured with Help America Vote Act of 2002 (HAVA) funds to meet Title III, Section 301 voting system standards. The reasoning being that HAVA specifically provides for the use of HAVA funds to procure such equipment.

HAVA, Section 301(b), broadly defines the term "voting system" as:

- the total combination of mechanical, electromechanical, or electronic equipment (including software, firmware, and documentation required to program, control, and support the equipment) that is used to: (1) define ballots; (2) cast and count votes; (3) report or display election results; and (4) maintain and produce any audit trail information; and
- the practices and associated documentation used to: (1) identify system components and versions of such components; (2) test the system during its development and maintenance; (3) maintain records of system errors and defects; (4) determine specific system changes to be made to a system after the initial qualification of the system; and (5) make available any materials to the voter (such as notices, instructions, forms, or paper ballots).

Recommendation:

Seek approval from the federal awarding agency for any audit costs charged to ERP funds as a direct cost, other than those associated with the Single Audit Act.

Response:

The office did not seek approval from the EAC for costs it paid to a private consulting firm totaling more than $48,000 as the office contracted for professional and consultant services, not audit costs. The consultant provided services which included identifying the office's existing operational controls over programs receiving federal funds, testing of these controls, evaluating the reasonableness of our policies and procedures, and developing a corrective action plan for deficiencies in our internal control structure. These activities were not performed for the purpose of conducting an audit in accordance with Circular A-133, but were to ensure compliance with HAVA's grant administration requirements in order to comply with relevant laws, regulations, and policies. A major component of the scope of work was to develop a compliance and internal control matrix to categorize laws, regulations, and state plan elements into a spectrum identifying the degree to which operational internal controls could impact compliance. These services were necessary considering this was the office's first ever receipt of federal funds, and no employee had the required

skills/experience to perform this function. As a result of this contract work, a compliance guide documenting detailed analysis of laws and regulations was provided to the office.

Recommendation:

Require that contracts, MOUs, and agreements have all necessary elements, including a maximum dollar amount to be paid, and submit them to General Services for approval when required.

Response:

Staff, who were at the office at the time, believed that these signed agreements with the counties constituted contracts and provided the authority for funding. The office had agreed to reimburse those counties based on their written agreement to comply with the conditions, and these agreements were deemed to be contracts between the office and the counties—the same as for the other counties.

However, detailed procedures based on the law and General Services' guidelines for all contracting-related activities have been created. Our new procedures cross-reference all appropriate supporting rules, regulations, policies, and procedures including the State Administrative Manual, State Contracting Manual, California Acquisition Manual, Purchasing Authority Manual, and office policies and procedures. Moreover, controls and procedures are built into the process to ensure compliance with the applicable laws and regulations. The procedures describe the situations in which different types of procurements are appropriate and which type of procurement should be utilized under various circumstances (e.g. Request for Proposal, Invitation For Bid).

Recommendation:

Ensure that time charged to the ERP program or any other federal program is supported with appropriate documentation, including time sheets or certifications.

Response:

Time sheets have been developed for use by staff and contractors to ensure appropriate record keeping of time spent on HAVA activities. Additionally, instructions were developed for completing the time sheets and training was provided to staff.

Recommendation:

Implement a process to ensure its vendors and subrecipients are not suspended or debarred from doing business with the federal government before awarding contracts.

Response:

Beginning July 1, 2005, the office began inserting standard suspension and debarment language in contracts. The current language is as follows:

Debarment and Suspension

> Pursuant to federal law, by signing this agreement or execution of this purchase order the Contractor certifies under the penalty of perjury that the contracting entity is not excluded or ineligible from federal assistance programs and thereby is not on the federal government's list of suspended or debarred entities.
>
> Pursuant to federal law, as a component of the procurement process, the Contractor must review the federal government's list of debarred and suspended vendors and ensure no contract award is provided to a vendor on this list. This list may be viewed at www.epls.gov.

The agreements from fiscal year 2004-05 were not amended to add this language as many had been terminated or expired shortly after the initial audit findings were released. However, those which continued through fiscal year 2004-05 and into fiscal year 2005-06 were retroactively checked for their suspension and debarment status on the EPLS website and have been verified that all are free from federal debarment and/or suspension.

The office continues to implement changes to improve the program's effectiveness, achieve compliance with HAVA's mandates, and restore public confidence in the office.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

Although we agree that HAVA broadly defines the term "voting system" and the EAC did not require approval of voting systems procured with these funds, we could not conclude that the items we questioned, including a photocopier, cameras, and a computer, met this broad definition. Thus, we question these payments.

Additionally, the office's statement that it did not seek approval from EAC for costs it paid to a private consulting firm totaling more than $48,000 as it contracted for professional and consultant services, not audit costs, is not completely accurate. In fact, this $798,890 contract, which the office says is for professional and consultant services specifically designates $220,850 for "internal control evaluation and compliance auditing". The office correctly points out that these activities were not performed for the purpose of conducting an audit in accordance with OMB Circular A-133. However, according to OMB Circular A-87, these non-A133 audit costs must be approved by the awarding agency to be allowable. Thus, we question them.

U.S. DEPARTMENT EDUCATION

Reference Number: 2005-2-1

Category of Finding: Allowable Costs and Cost Principles

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 Title I Grants to Local Educational Agencies program (Title I, Part A) and the Migrant Education—State Grant Program (Migrant Education) identified the following requirements related to allowable costs and cost principles:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87), states that for costs to be allowable and charged to a federally funded program, the costs must be necessary, reasonable, allocable to that program, and authorized or not prohibited under state or local laws or regulations. In addition, OMB Circular A-87, Attachment B, sections 8d and 8h, establish standards for the allocation of allowable fringe benefits and for the time distributions that support salaries and wages. Section 8h(4) states that for employees expected to work on more than one federal award or on one federal and one nonfederal award, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation that reflect an after-the-fact distribution of each employee's actual activity.

CONDITION

The Department of Education (Education) inappropriately charged a portion of two employees' salaries and fringe benefits (personal services costs) to the Title I, Part A and Migrant Education programs. Specifically, for the first employee, our review of Education's accounting records indicated that all of the employee's personal services costs were being split between the Title I, Part A and Migrant Education programs, even though this employee asserted that she spends 50 percent of her time working on a state-funded program. According to this employee, she splits her time between these two federal programs on her timesheet rather than charging her actual activity to the state-funded program because her previous manager instructed her to do so. Additionally, even though the second employee indicated that she spends her time administering two state-funded programs, Education's accounting records indicated that a portion of her time was also charged to these same federal programs. Accordingly, we estimate that $68,500 was charged inappropriately to the Title I,

Part A and the Migrant Education programs for these two employees' personal services costs during fiscal year 2004-05. Thus, Education did not ensure it complied with the federal principles for allowable costs for these personal services costs.

RECOMMENDATION

Education should ensure that it adheres to the principles and standards in OMB Circular A-87. It should ensure this by requiring these two employees to charge their time to the Title I, Part A and Migrant Education programs in a manner consistent with their actual activity.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education will advise the two employees to charge time to the appropriate funding source for the activities performed. Additionally, Education will reverse the previous charges of these two employees' time actually spent working on a state program to the appropriate funding source.

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:	S010A040005; 2004

Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A040005; 2004

Reference Number:	2005-3-1
Federal Catalog Number:	84.010
Federal Program Title:	Title I Grants to Local Educational Agencies

Federal Award Number and Calendar Year Awarded:	S010A040005; 2004
Category of Finding:	Cash Management
State Administering Department:	Department of Education

CRITERIA

Our review of the Title I Grants to Local Educational Agencies program (Title I Part A) identified the following requirements related to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds. Finally, grant requirements state that the regulations in Section 80 apply to Title I of the Elementary and Secondary Education Act of 1965 as amended.

CONDITION

The Department of Education (Education) does not have adequate procedures to ensure that Title I Part A subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Education disburses program funds to subrecipients based on predetermined percentages of program funds, rather than assessing and disbursing these funds based on each subrecipient's immediate cash needs. Education's lack of procedures to assess each subrecipient's cash needs, combined with its predetermined advance-payment process, does not adequately ensure that subrecipients minimize the time between receipt and disbursement of program funds.

For the 29 subrecipients we reviewed for Title I Part A funds, Education generally disbursed 80 percent, or more than $326 million, of their awards during fiscal year 2004-05 without receiving information on the subrecipients' use of funds. Moreover, according to subrecipient expenditure reports that were due to Education by January 31, 2005, our review found that 24 subrecipients reported that they carried over more than $154 million of grant funds from fiscal year 2003-04 to fiscal year 2004-05. The amounts carried over ranged from $1,805 to $146,278,446. The percentage of the amounts carried over ranged from 1.9 percent to 100 percent of the amounts Education disbursed to the 24 subrecipients in fiscal year 2003-04.

RECOMMENDATIONS

To ensure that subrecipients minimize the time between receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its advance payments to reflect those needs more closely. One way Education could achieve this would be to require its subrecipients to report their program cash balances and expected costs for the upcoming payment period. Education then would advance only enough program funds to cover immediate cash needs. If Education determines that it cannot implement effective cash management procedures it should pay subrecipients on a reimbursement basis.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

With limited resources available to monitor whether subrecipients' advance payments are expended before subsequent payments are issued, Education continues to explore various options for an optimal approach on monitoring which may include seeking guidance from the United States Department of Education's Risk Management Office.

In the interim, Education continues to allocate funds proportionate to the unpaid months that have elapsed prior to and including the month of the current apportionment, based on the principle that local educational agencies (LEAs) incur federal expenditures fairly constantly through the year. Education's apportionment letters include language notifying LEAs of a potential delay in funding if significant carry over balances exist.

Reference Number:	2005-3-2
Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Number and Calendar Year Awarded:	T365A040005; 2004
Category of Finding:	Cash Management
State Administering Department:	Department of Education

CRITERIA

Our review of the English Language Acquisition Grants program identified the following requirements related to cash management:

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

CONDITION

The Department of Education (Education) does not have adequate procedures to ensure that English Language Acquisition Grant subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal program funds. Under its payment procedures, Education disburses 100 percent of the program funds to subrecipients without assessing each subrecipient's immediate cash needs. In addition, Education does not require its subrecipients to report any expenditure information until nine months after they receive the first of three payments. As a result of these weaknesses, Education disbursed approximately $154.9 million during fiscal year 2004-05 with no assurance that these subrecipients minimized the time between the receipt and disbursement of federal funds. Further, our review found that Education's subrecipients reported, as of October 2005, that they had carried over $88.4 million (57 percent) of $154.9 million from fiscal year 2004-05 to fiscal year 2005-06.

RECOMMENDATIONS

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its advance payments to more closely reflect each subrecipient's immediate cash needs. One way Education could achieve this would be to require its subrecipients to report their program cash balances and expected costs for the upcoming payment period. Education then would advance only enough program funds to cover immediate cash needs. If Education determines that it cannot implement effective cash management procedures, it should pay subrecipients on a reimbursement basis.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education now requires English Language Acquisition Grant recipients to report and achieve a minimum threshold of expenditures and short term encumbrances of previously released funds prior to the release of additional grant funds.

Education notified grant recipients that prior to the release of the next grant payment (the first payment of the 2005-06 award), grantees must have expended and/or have short term encumbances of at least 65 percent of their 2004-05 grant award by September 30, 2005. Short term encumbrances are defined as those encumbrances

being payable before the grant recipient's next expenditure report is due. If grantees did not meet the threshold, their next grant payment will be delayed until such time as a scheduled report identifies that this threshold has been achieved. While the introductory threshold was set at 65 percent, subsequent thresholds have been set at 80 percent.

Furthermore, Education requires three expenditure reports that will be reviewed prior to the release of additional grant funding. Therefore, following the release of the first payment of the 2005-06 award and pursuant to a grantee meeting the 65 percent threshold, all subsequent payments will be based upon expenditure reports verifying that the grantee has expended and/or has short term encumbances of at least 80 percent of all prior funding received.

Reference Number:	2005-3-3
Federal Catalog Number:	84.318
Federal Program Title:	Education Technology State Grants
Federal Award Numbers and Calendar Years Awarded:	S318X030005; 2003 S318X040005; 2004
Category of Finding:	Cash Management
State Administering Department:	Department of Education

CRITERIA

Our review of the Education Technology State Grants program (Education Technology) identified the following requirements relating to cash management:

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

CONDITION

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

payment procedures, Education disburses 85 to 90 percent of the program funds to subrecipients without assessing each subrecipient's immediate cash needs. In addition, Education generally does not require its subrecipients to report any expenditure information until more than a year after first disbursing these funds. As a result of these weaknesses, Education disbursed $67.1 million during fiscal year 2004-05 with no assurance that these subrecipients minimized the time between the receipt and disbursement of federal funds.

RECOMMENDATIONS

To minimize the time between subrecipient's receipt and disbursement of federal program funds, Education should implement procedures to assess each subrecipient's immediate cash needs and, if necessary, adjust advance payments to reflect more closely those needs. One way Education could achieve this would be to require its subrecipients to report their program cash balances and expected costs for the upcoming payment period. Education would then only advance enough program funds to cover immediate cash needs. If Education determines that it cannot implement effective cash management procedures, it should pay subrecipients on a reimbursement basis.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education Technology competitive grants are disseminated in three payments each year. The first payment of 45 percent is released after the grant award document is signed by the Superintendent or designee and returned to Education. By February 15 of each year, Education will require subrecipients to submit an expenditure report of actual expenditures to date along with the semi-annual performance report. If the subrecipient spent 50 percent or more of the first payment, the second 45 percent payment will be released. If the subrecipient spent less than 50 percent of the first payment, it will not receive a second payment until it certifies that the funds have been spent. The final payment will be released after the End-of-Period expenditure report is received by Education, and at least 50 percent of the funds from the first two payments have been spent.

Education Technology formula grants provide subrecipients advance payments to implement their approved technology plan, which may require significant puchases of hardware and software. Therefore, Education proposes to provide the subrecipients an advance payment of 50 percent of their initial grant award amount. By February 15 of each year, Education will require subrecipients to submit an expenditure report of actual expenditures to date. If the subrecipient spent 80 percent of the first payment, the second payment will be released. If the subrecipient spent less than 80 percent of the first payment, it will not receive the final payment until it certifies that the required percentage of funds have been spent. An end-of-period expenditure report that provides signed assurances that funds were expended in accordance with the grant

award documents will still be required and Education will bill for any unspent funds. It is anticipated that this process will begin with the 2006-07 grant year, depending upon completion of the web-based reporting system.

Reference Number:	2005-3-4
Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Number and Calendar Year Awarded:	S367A040005A; 2004
Category of Finding:	Cash Management
State Administering Department:	Department of Education

CRITERIA

Our review of the Improving Teacher Quality State Grants (Improving Teacher Quality) program identified the following requirements related to cash management:

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

CONDITION

The Department of Education (Education) does not have adequate procedures to ensure that subrecipients of the Improving Teacher Quality program demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Under its payment procedures, Education disburses predetermined percentages of program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Further, Education does not require its subrecipients to report their use of program advances before it makes additional payments to them. As a result, Education does not ensure that subrecipients minimize the time between receipt and disbursement of federal funds.

Of the 37 subrecipients we reviewed for the Improving Teacher Quality program, Education disbursed 80 percent of the funds without receiving information on the use

of funds. As a result, Education disbursed $27.2 million with no assurance that the subrecipients minimized the time between the receipt and disbursement of federal funds.

To assess whether Education's process resulted in excess cash balances, we compared the amount disbursed to the four largest subrecipients in fiscal year 2002-03 with the expenditures reported in their audit reports for that year, the most recent year for which readily comparable expenditure data was available. We found that while these four subrecipients reported expenditures totaling $71.6 million, Education had given them $78.2 million, or $6.6 million more than needed to cover their expenditures. This suggests that the subrecipients maintained excess cash balances.

RECOMMENDATIONS

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should complete and implement planned procedures to assess subrecipients' cash needs and, if necessary, adjust advance payments to reflect more closely their immediate cash needs. One way Education could do this would be to require its subrecipeints to report their program cash balances and expected costs for the upcomming payment period, advancing only enough program funds to cover immediate cash needs. If Education determines that it cannot implement effective cash management procedures, it should pay subrecipients on a reimbursement basis.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education requires subrecipients of the Improving Teacher Quality Program to report year-to-date expenditures of previously released grant funds, which are evaluated to ensure that a minimum threshold has been achieved prior to the release of additional grant funds. During the fall 2004, carryover data from fiscal year 2003-04 was collected and used to evaluate expenditure patterns to assist in establishing the 80 percent threshold level.

Education notified all LEA subrecipients that prior to the release of fiscal year 2005-06 grant funds, an LEA must have expended and/or encumbered at least 80 percent of their available fiscal year 2004-05 grant funds. A mid-year expenditure report will also be used to determine future funding using the same 80 percent threshold.

Reference Number:	2005-3-5
Federal Catalog Number:	84.298
Federal Program Title:	State Grants for Innovative Programs

Federal Award Numbers and Calendar Years Awarded:	S298A030005; 2003 S298A040005; 2004
Category of Finding:	Cash Management
State Administering Department:	Department of Education

CRITERIA

Our review of the State Grants for Innovative Programs (Innovative Education), identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds. Further, sections 299.1 and 299.2 state that regulations in Section 80, with some exceptions, apply to Titles I through XII of the Elementary and Secondary Education Act of 1965 as amended.

CONDITION

The Department of Education (Education) does not have adequate procedures to ensure that subrecipients of the Innovative Education program demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Under its payment procedures, Education disburses 80 percent of Innovative Education program funds to subrecipients without assessing each subrecipient's immediate cash needs. As a result of this weakness, Education disbursed approximately $24.5 million during fiscal year 2004-05 with no assurance that these subrecipients minimized the time between the receipt and disbursement of federal funds.

Further, our review of 40 subrecipients who received $9.4 million during fiscal year 2003-04 from that same year's award found that 17 carried over significant cash balances to fiscal year 2004-05. The amounts that these 17 subrecipients carried over ranged from $3,700 to $5 million. The percentages carried over ranged from 79 percent to 482 percent of these amounts received. Thus, some of these carryovers included amounts received in prior years.

RECOMMENDATIONS

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash

needs and, if necessary, adjust its advance payments to more closely reflect the immediate cash needs of each subrecipient. One way Education could achieve this would be to require its subrecipients to report their program cash balances and expected costs for the upcoming payment period. Education then would advance only enough program funds to cover immediate cash needs. If Education determines that it cannot implement effective cash management procedures, it should pay subrecipients on a reimbursement basis.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education implemented revisions to the Consolidated Application to capture LEA expenditure data for Innovative Education program. Education's fiscal and program offices are working together to establish a procedure to use the expenditure data prior to releasing subsequent Innovative Education funds.

Reference Number:	2005-5-1
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Calendar Years Awarded:	H126A030005; 2003 H126A040005; 2004
Category of Finding:	Eligibility
State Administering Department:	Department of Rehabilitation

CRITERIA

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

The Code of Federal Regulations, Title 34, Section 361.41, requires the State to determine an individual's eligibility for Vocational Rehabilitation services within 60 days of receiving his or her application, with certain exceptions.

CONDITION

The Department of Rehabilitation (Rehabilitation) does not always determine applicant eligibility for Vocational Rehabilitation services within the required period. Of the

33,415 applications Rehabilitation received between July 1, 2004, and April 30, 2005, it did not determine eligibility, obtain extensions, or close cases within the 60-day period for 2,656, or 8 percent, of the applications. In fiscal years 2001-02, 2002-03, and 2003-04, Rehabilitation exceeded the 60-day period for 21 percent, 14.6 percent, and 8 percent of the applications it received, respectively. Thus, Rehabilitation made consistent improvement in recent years, but its efforts to determine eligibility promptly have leveled off.

Rehabilitation determined an applicant eligible after 60 days in 1,770 of the 33,415 applications (5.3 percent) it received between July 1, 2004, and April 30, 2005. For some of these cases, Rehabilitation obtained an agreed-upon extension after the deadline. Of those 1,770 cases, Rehabilitation was fewer than 11 days late in 60.7 percent of the cases, 11 to 30 days late in 25 percent of the cases, and 31 to 60 days late in 10 percent of the cases. It took more than 120 days to determine eligible clients in 4.3 percent of the cases. In addition, Rehabilitation still had not determined eligibility status in 291 cases as of July 12, 2005, and 595 cases had other resolutions after the 60-day deadline. When Rehabilitation does not determine an applicant's eligibility within the required period, it reduces the assurance that clients receive the required vocational rehabilitation services promptly.

RECOMMENDATION

To ensure that applicants receive Vocational Rehabilitation services promptly, Rehabilitation should improve its efforts to determine eligibility within the required period.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Rehabilitation agrees with this finding. While Rehabilitation acknowledges its efforts to improve timely eligibility determinations have leveled off for fiscal year 2004-05, there remains a strong commitment to improve in this area. By utilizing the following corrective action plan in collaboration with district administrators, rehabilitation supervisors, counselors and cooperative program partners, Rehabilitation expects its compliance with this federal requirement to improve in fiscal year 2005-06.

1. SHARE INFORMATION WITH DISTRICT ADMINISTRATORS

Best practices for timely eligibility determinations continue to be identified and shared in regional district administrators' meetings. In addition, statewide meetings are being scheduled in fiscal year 2005-06 for the district administrators to design a mechanism for effective dissemination of these and other best practices in Rehabilitation.

The district administrators continue to receive reports that track the number of overdue eligibility determinations for each counselor on a monthly basis. These reports are distributed to Rehabilitation supervisors and counselors for prompt and immediate follow-up.

2. INFORM AND EDUCATE REHABILITATION STAFF

The importance of timely eligibility determination continues to be stressed in all Rehabilitation sponsored training courses and during staff meetings. The Case Recording Handbook, Chapter 2, also provides a full description of the presumptive eligibility provisions in the Code of Federal Regulations. Counselors are continually being trained to utilize existing information and the presumptive eligibility criteria as opposed to requiring additional medical/vocational assessments prior to determining eligibility, which historically has delayed timely eligibility determination. Counselors and Rehabilitation supervisors continue to receive automated reminder notices on the Field Computer System before the expiration of the 60 days allowed for eligibility determination. Memorandums containing further guidance on conducting and tracking timely eligibility determinations will be developed and issued to field staff.

3. LOCAL LEVEL MONITORING OF ELIGIBILITY DETERMINATIONS

The Rehabilitation supervisors continue to conduct reviews of eligibility determinations and extensions to ensure appropriateness and compliance with federal regulations. These supervisors work with the counselors to utilize existing information to the maximum extent possible and the presumptive eligibility criteria to ensure more timely eligibility determinations. Counselors and Rehabilitation supervisors continue to receive automated reminder notices on the "Reminder/Approval lists" before the expiration of the 60 days allowed for eligibility determination. In addition to the automated reminder notices, reports are generated monthly to track the number of overdue eligibility determinations in each district. These reports have been modified to include information as to whether the consumer receives Supplemental Security Income or Social Security Disability Income to alert counselors to utilize the presumptive eligibility criteria and subsequently expedite the eligibility determination process.

4. *EXECUTIVE LEVEL MONITORING OF ELIGIBILITY DETERMINATIONS*

On a monthly basis, the deputy directors review regional and district overdue eligibility reports and the Consumer Satisfaction Surveys to identify trends of overdue eligibility determinations and then work with the district administrators to resolve the issues preventing the timely determination of eligibility. The district administrators have begun reporting their strategies to improve the timeliness of eligibility determinations as part of their annual strategic plans submitted to the deputy directors.

5. PROVIDE GUIDANCE AND MONITORING TO COOPERATIVE PROGRAM PARTNERS

Cooperative contract renewal training is provided annually to each district and their partner agency contract administrators. This training supports the requirement that the referral and application process for all cooperative programs be delineated in each

contract. Auditing eligibility documentation is a component that has been incorporated in the cooperative program review protocol to ensure the district and their partners observe their respective responsibilities in achieving timely eligibility determination for program applicants.

Reference Number:	2005-7-1
Federal Catalog Number:	84.027
Federal Program Title:	Special Education—Grants to States
Federal Award Numbers and Calendar Years Awarded:	H027A020116; 2002 H027A030116; 2003
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education

CRITERIA

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

The United States Code, Title 20, Section 1412(a)(19)(A), prohibits any state that receives assistance under Special Education from reducing the amount of state financial support for Special Education and related services for children with disabilities, including support for the excess costs of educating those children, to less than the amount of that support for the preceding fiscal year. Further, the Code of Federal Regulations, Title 34, Section 300.154(a), specifies that the State must have on file with the U.S. Department of Education (USDE) information to demonstrate that the State will comply with this requirement.

CONDITION

In response to our fiscal year 2003-04 recommendations, the Department of Education (Education) implemented a system for monitoring its compliance with the maintenance of effort requirement; however, it did not clarify with USDE which funds should be included in its maintenance of effort determination. Thus, we cannot conclude that it has met this requirement.

To demonstrate its compliance with the maintenance of effort requirement for fiscal year 2002-03, the most recent year for which complete information is available, Education chose to include only those expenditures authorized under certain General Fund appropriations specific to Education and certain special education programs.

Using this method, Education determined that it had met its maintenance of effort requirement for fiscal year 2002-03. Although we found that the expenditure information Education compiled is materially accurate, we cannot conclude that Education has included all of the information it should to demonstrate the State's compliance with the maintenance of effort requirement. For example, Education did not include special education expenses incurred by other State departments, such as Mental Health. As we reported last year, the State's deferral of $100 million from Mental Health's fiscal year 2002-03 budget, some of which in the prior year Mental Health had used to provide services to children in Special Education, caused some to question whether the State had met its maintenance of effort requirement for fiscal year 2002-03.

Absent an agreement with USDE, neither we nor Education can be sure what should be included in its maintenance of effort determination. Because failure to meet this requirement could result in the State losing some federal funding for Special Education, it is important that Education obtain such an agreement with USDE.

RECOMMENDATION

Education should obtain the USDE's agreement as to what should be included and excluded from the State's maintenance of effort calculation for special education.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education will seek guidance from the USDE officials as requested.

Reference Number:	2005-7-2
Federal Catalog Number:	84.298
Federal Program Title:	State Grants for Innovative Programs
Federal Award Number and Calendar Year Awarded:	S298A020005; 2002
Category of Finding:	Level of Effort—Supplement Not Supplant
State Administering Department:	Department of Education

CRITERIA

Our review of the State Grants for Innovative Programs (Innovative Education) identified the following requirement related to level of effort:

The United States Code, Title 20, Section 7217(c) provides that funds made available under this program shall be used to supplement, and not supplant, any other federal, state, or local education funds.

CONDITION

The Department of Education (Education) does not have a system in place for monitoring the State's compliance with the requirement that it use revenues from Innovative Education to supplement, rather than supplant, existing funds for grant-related activities. By not tracking whether it is using its federal funds to supplement existing funds, the State may not identify potential noncompliance in time to take the necessary corrective action, which ultimately could result in reduced federal funding. We independently performed procedures to determine whether Education met the supplement-not-supplant requirement for Innnovative Education. The State appears to have met these requirements.

RECOMMENDATION

Education should implement a process to monitor whether the revenues from Innovative Education supplement other funding for grant-related activities.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education continues to develop a process to determine whether the federal grant revenues supplement, rather than supplant, other funding for the Innovative Education program.

Reference Number:	2005-8-3
Category of Finding:	Period of Availability
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 Adult Education—State Grant Program (Adult Education), the Twenty-First Century Community Learning Centers Grant program (Twenty-First Century), and the Reading First State Grants program (Reading First) identified the following requirements relating to period of availability:

The Code of Federal Regulations, Title 34, 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. In addition, according to guidance issued by the U.S. Department of Education, states must obtain a waiver permitting the late liquidation of grant obligations beyond this 90-day period.

CONDITION

The Department of Education (Education) did not obtain the U.S. Department of Education's approval to liquidate obligations beyond the 90-day liquidation period for three of its grant awards. Although the liquidation period for these grant awards expired December 31, 2004, Education liquidated obligations totaling $300,000 for its Reading First program and $200,500 for its Twenty-First Century program in February 2005. Further, Education liquidated obligations totaling $117,000 for its Adult Education program in March 2005. These disbursements took place more than one month and as many as three months after the 90-day liquidation period for these awards had expired. There was no U.S. Department of Education approval to do so. By failing to obtain the U.S. Department of Education's approval to liquidate these obligations after the 90-day period, Education risks having to return funds to the federal awarding agency.

RECOMMENDATION

Education should ensure that it obtains the U.S. Department of Education's approval to liquidate obligations beyond the 90-day period.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

For the Reading First program claim, the funds were drawn within the liquidation period; therefore, Education did not need to contact the U.S. Department of Education (ED) for an extension. However, the claim could have been processed in a more timely fashion. Education recently contacted the ED and realized that it may have kept the funds in the Grants Administration and Payment System (GAPS) until the claim was ready to be drawn, and then contacted the ED for a liquidation extension. Education will implement this process effective immediately.

For the Adult Education and Twenty-First Century program claims, the first-in, first-out process was used to fully expend the 2002 federal grants. According to the Policy Memorandum issued by the ED, titled "Extension of Liquidation Periods and Related

Accounting Adjustments for Grantees under Department of Education State-Administered Programs", ED will consider requests for late liquidations and if approved, will open GAPS. Since Education did not need to access GAPS because the grant balances were zero, Education did not contact ED for an extension. In the future, if late liquidations are submitted, Education will contact ED for approval before completing the last-in, first-out process.

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:	V002A020005; 2002

Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers Grant
Federal Award Number and Calendar Year Awarded:	S287C020005; 2002

Federal Catalog Number:	84.357
Federal Program Title:	Reading First State Grants
Federal Award Number and Calendar Year Awarded:	S357A020005; 2002

Reference Number:	2005-14-1
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A040005; 2004
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Education

CRITERIA

Our review of the Migrant Education—State Grant Program (Migrant Education) determined that the following compliance requirement related to the subgrant process:

The United States Code, Title 20, Section 6394(b)(5), requires the State to determine the amount of subgrants it awards to local educational agencies (LEAs) and to take into account the numbers and needs of migrant children, the priority for services for certain migrant children, and the availability of funds from other federal, state, and local programs.

CONDITION

The Department of Education (Education) did not take into account all the required information when it awarded subgrants to LEAs for Migrant Education. During fiscal year 2004-05, Education allocated funds to LEAs using current data on the numbers and needs of migrant children in the State. Although Education uses its applications to obtain limited information about the availability of funds from other programs, it did not consider even limited information when it determined the amount of subgrants it awarded to LEAs. In addition, Education did not obtain information to allow it to take into account the priority for services for certain migrant children in the State when it determined the subgrant amounts awarded to LEAs. As a result, Education cannot be sure it funded the LEAs appropriately when it determined the subgrants for Migrant Education.

RECOMMENDATION

Education should ensure that it obtains sufficient information about the availability of funds from other programs and the priority of services and takes the information into account when it determines the size of subgrants to LEAs for Migrant Education.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education developed a revised sub grant formula process that includes the following criteria:

1. Counts of eligible migrant students
2. Counts of eligible migrant students who moved within one year
3. Counts of eligible migrant students ages 19-21
4. Academic need
5. Priority for services
6. Availability of other state and federal funds

Each of these criteria is in place for the sub grant funding process with the exception of the priority for services. This factor requires extracting and matching data from two separate databases (Migrant Student Information System (MSIN) and CDE-STAR) to

determine the counts of priority for service students for each grantee. Education is addressing privacy and other legal requirements before making student level state assessment data available to the MSIN.

If the priority for services data access issues are resolved, Education should be able to implement the revised sub grant formula process beginning with the fiscal year 2006-07.

Reference Number:	2005-14-3
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loans
Year Awarded:	State fiscal year 2004-05
Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission

CRITERIA

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

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

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

CONDITION

Student Aid's auxiliary organization administers the loan program. However, the auxiliary organization has not developed adequate internal controls over its

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

The auxiliary organization's management has not provided sufficient entitywide security planning and management. We found that although the auxiliary organization has made some progress by hiring a contractor that completed a security risk assessment in June 2005, as of September 2005 it had yet to complete an entitywide security program plan. This plan should clearly describe the auxiliary organization's security program and the policies and procedures that support it. In addition, the plan should cover all major facilities and systems and outline the duties of the security management function. The lack of planning and management has the potential to result in insufficient protection of sensitive or critical computer records.

The auxiliary organization also needs to strengthen its logical security controls. Logical security controls are the policies and electronic access controls designed to restrict access to computer software and data files. Although the auxiliary organization has made some changes it continued to have the following weaknesses in controls over its software and data files during fiscal year 2004-05:

- It did not always promptly remove employees' electronic access when they leave the employ of the auxiliary organization. We tested a sample of 22 employees who had left the employ of the auxiliary organization and found that in three cases the auxiliary organization did not promptly remove the employees' electronic access. For these employees, the auxiliary organization took 2, 3, and 5 days to remove access after the employees left the employ of the auxiliary organization.

- A limited number of employees are allowed access to data that is not related to their assigned responsibilities. Additionally, the auxiliary organization inappropriately allowed these same employees to make changes to sensitive data, even though the changes were not subject to the normal edits of its information system. Further, the auxiliary organization did not maintain a complete history or audit trail of the changes made to the data.

Finally, Student Aid's operating agreement with the auxiliary organization does not include provisions to ensure that the auxiliary organization maintains strong controls over its information systems. For fiscal years 2002-03 and 2003-04, we noted that the operating agreement did not detail Student Aid's expectations for the operation of the information technology system that maintains the records for the loan program. Such expectations could include requirements for information security, the performance of a security risk assessment, and development of an information security program plan. We also noted that Student Aid could require its auxiliary organization to obtain an audit of its information technology controls that are relevant to Student Aid's financial statements. This audit should report on whether such controls were suitably designed

to achieve specified control objectives, whether they have been enacted as of a specific date, and whether the controls were sufficient to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified. Student Aid extended the operating agreement for fiscal year 2004-05 without adding significant provisions to strengthen controls over information systems.

RECOMMENDATIONS

Student Aid's auxiliary organization should implement an entitywide program for security planning and management that provides for strong physical and logical security controls over its information systems. This will help ensure that it maintains current, complete, and accurate records for each loan that it holds. In addition, Student Aid should amend its operating agreement with its auxiliary organization to specify its expectations related to the control structure over the information system.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Entity-wide Security Program Plan

During federal fiscal year 2005-06, the auxiliary's Information Security Officer developed an entity-wide security program plan that defines the information security initiatives planned for execution during the three years ending September 30, 2008. This plan was developed using the recommendations from the risk assessment performed in the prior year.

Removal of Employee Electronic Access

The Internal Audit division will review the three instances identified by the auditor to determine if existing procedures are being followed and/or whether additional controls are necessary to help ensure prompt removal of access for terminated employees.

Data Maintenance

During fiscal year 2005-06, the auxiliary performed an inventory of the key data maintenance changes currently performed, determined the cause(s) and criticality of such changes as well as the volume and associated risk(s) of such changes. The auxiliary determined that for certain updates that are currently performed using data maintenance; modifications could be made to its information system which would provide a systematic process for performing these updates including the creation of an automated audit trail. A project to implement these enhancements will be developed and provided to executive management for consideration.

A process has also been implemented to address updates/actions that the auxiliary determined could not be performed through a systematic process and therefore will continue to be performed through data maintenance. Specifically, the auxiliary has created a centralized log that documents all types of data maintenance updates that are currently occurring or requested. Information documented in the log includes a

description of the type of data change, impact to the business unit or borrower if the error is not corrected, and the action taken. The Technology Solutions and Services Division is also responsible for reviewing the requests to ensure that there is no systematic means to perform the change.

The two divisions that currently perform data maintenance updates have both developed formal procedures for requesting, authorizing and performing data maintenance changes. Additionally, the Internal Audit division is scheduled to perform a review of these newly implemented data maintenance processes during the two-year internal audit cycle ending September 30, 2007.

Operating Agreement

Commission management agrees with the need for stronger provisions in the Operating Agreement to appropriately enforce the auxiliary to maintain strong control over its information systems and will continue to suggest revisions to the Commission in support of the auditor's recommendation, when the Operating Agreement is next updated.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2005-1-1
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-0405CA5028; 2004 05-0505CA5028; 2005
Category of Finding:	Activities Allowed
State Administering Department:	Department of Health Services

CRITERIA

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

The Code of Federal Regulations, Title 42, Section 447.50 allows the State to impose cost-sharing charges on some of its Medicaid recipients. The California Code of Regulations, Title 22, sections 50090 and 50653(a) defines share of cost as a person's or family's net income in excess of their maintenance need that must be paid or obligated toward the cost of health care services each month.

The Code of Federal Regulations, Title 42, Section 447.253(i) requires the Medicaid agency to pay for inpatient hospital and long-term care services using rates determined in accordance with methods and standards specified in an approved state plan.

CONDITION

The Department of Health Services (Health Services) does not always ensure that its fiscal intermediary pays Medicaid claims correctly. Specifically, we found the following errors during our testing of 30 claims processed by its fiscal intermediary.

- Because of a problem in an automated system, Health Services overpaid a provider $53 for one pharmacy claim we reviewed. Providers submit most of their pharmacy claims for Medicaid reimbursement through the automated point of service system (CALPOS). Using the claim information, CALPOS computes the amount that Medicaid will pay. However, because of a system problem that the fiscal intermediary said began in January 2000, CALPOS did not deduct the Medicaid recipient's share of costs from certain claims, causing the Medicaid payment to be overstated. The fiscal intermediary, which maintains CALPOS,

indicated it corrected the problem in September 2005. However, at the completion of our fieldwork, Health Services had not yet determined the extent of overpayments that resulted from this problem.

- For a second claim, Health Services underpaid one inpatient care provider $464 because its fiscal intermediary had not updated this provider's hospital stay rate in its system. The fiscal intermediary had not updated the rate of $230.29 per day, effective in August 2000, for this provider. It should have changed the rate to $236.82 per day, which was in effect between August 2003 and July 2005. Although Health Services is responsible for ensuring that its fiscal intermediary updates rates for hospitals, it did not know whether its fiscal intermediary has done so consistently.

RECOMMENDATIONS

Health Services should determine the extent of the overpayments it may have made as a result of the system problem, and recover any overpayments. Health Services also should ensure that its fiscal intermediary consistently updates the hospital stay rates used to calculate amounts paid to hospitals. When warranted, it should adjust the inaccurate payments that have occurred.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services agrees that a system problem resulted in an overpayment of some pharmacy claims. As noted in the audit finding, the system problem was corrected in September 2005 to ensure share of cost is deducted from the claim regardless of whether the provider included that information on the claim or not. Health Services is taking action to determine the extent of any other potential overpayments that may have occurred as a result of the system problem and to recover all overpayments. An Erroneous Payment Correction (EPC) plan has been initiated to identify any other pharmacy claims that may have been impacted by the system problem and to recoup any overpayments.

Health Services agrees that the system problem resulted in an underpayment on an inpatient care claim. Health Services is taking action to determine the extent of any other potential underpayments that may have occurred as a result of the system problem and to resolve all underpayments. The coordination of rates function has been reassigned to the Payment Systems Division's Fiscal Intermediary Information Technology Management (FIITM) Branch and the fiscal intermediary, Electronic Data Systems (EDS). This arrangement more closely aligns the facilitation of the system change to the branch responsible for other systems modifications. The FIITM Branch is working with the Medi-Cal Policy Division, Provider Enrollment Branch, and EDS to identify all adjudicated claims that were reimbursed at the incorrect rate and generate EPC's to compensate the provider or department (if appropriate) for the difference between the rate paid and the proper rate that should have been applied at the time the services were rendered.

Reference Number:	2005-2-4
Federal Catalog Number:	93.283
Federal Program Title: Prevention—	Centers for Disease Control and Investigations and Technical Assistance[2]
Federal Award Numbers and Calendar Years Awarded:	U90/CCU917016-05; 2004 U90/CCU917016-04; 2003
Category of Finding:	Allowable Costs
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Public Health Preparedness and Response for Bioterrorism (Bioterrorism) program identified the following compliance requirements 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 B, Section 8.h, states that if employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that they worked solely on that one program. To assist programs in meeting the federal regulations, the Department of Health Services (Health Services) established form DHS 2361, Federal Certification of Activity, and established specific procedures requiring employees who work solely on a single federal award or cost objective to complete the form twice during a year. Health Services' procedures require that program staff maintain employee certifications in the program offices.

CONDITION

Health Services did not ensure that employees who worked full-time on the Bioterrorism program consistently completed the required certifications. Specifically, our review of a sample of four areas within Health Services that asserted their employees worked full-time on the Bioterrorism program found that three did not obtain the required certifications from their employees. Health Services charged personal services costs totaling $3.8 million to the Bioterrorism program during fiscal year 2004-05 for the employees in these three areas. This amount represented 59 percent of the total personal services costs charged to the Bioterrorism program. One of the three areas has stated that it is instituting the certification process. Without

[2] This finding relates to the Public Health Preparedness and Response for Bioterrorism program portion of this federal program.

the certifications required by federal regulations, Health Services cannot ensure that the personal services costs charged to the Bioterrorism program during fiscal year 2004-05 are allowable.

RECOMMENDATION

Health Services should ensure that the employees working full time on the Bioterrorism program consistently complete the required certification.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services agrees with the finding and will institute procedures immediately to ensure that all Health Services' employees holding positions funded under the Centers for Disease Control and Prevention Cooperative Agreement complete the required certification twice during each year. Health Services' procedures will require that program staff maintain employee certifications in the program offices.

Reference Number:	2005-3-6
Federal Catalog Number:	93.283
Federal Program Title:	Centers for Disease Control and Prevention—Investigations and Technical Assistance[3]
Federal Award Numbers and Calendar Years Awarded:	U90/CCU917016-05; 2004 U90/CCU917016-04; 2003 U90/CCU917016-03; 2002
Category of Finding:	Cash Management
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Public Health Preparedness and Response for Bioterrorism program identified the following requirements related to cash management:

The Code of Federal Regulations, Title 45, Section 92.21, allows a state's subrecipients to receive advance payments provided they maintain or demonstrate the

[3] This finding relates to the Public Health Preparedness and Response for Bioterrorism program portion of this federal program.

willingness and ability to maintain procedures to minimize the time elapsing between the receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if a state's subrecipients receive advance payments, Section 92.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds.

California Health and Safety Code, sections 101317(d)(1) and (2), requires the Department of Health Services (Health Services) to disburse funds quarterly to local health jurisdictions (subrecipients) for the Public Health Preparedness and Response to Bioterrorism program contingent upon completion of certain tasks.

CONDITION

Health Services does not ensure that the Public Health Preparedness and Response for Bioterrorism program's subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal program funds. According to the chief of Health Services' Program Support Section, Emergency Preparedness Office, Health Services follows California Health and Safety Codes and disburses the first quarterly payment to its subrecipients upon receipt of their applications. It disburses subsequent payments contingent upon the approval of a subrecipient's plan and budget and progress in implementing that plan, as well as submission of fiscal reports. However, before disbursing these additional payments, Health Services does not assess its subrecipients' cash needs and adjust the advance payments accordingly. As a result of these weaknesses, Health Services disbursed approximately $61 million during fiscal year 2004-05 with no assurance that these subrecipients minimized the time between the receipt and disbursement of federal funds. Further, Health Services' records indicate subrecipients reported that they had unspent funds for fiscal year 2004-05 totaling more than $5.8 million.

RECOMMENDATIONS

To minimize the time between subrecipients' receipt and disbursement of federal funds, Health Services should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its quarterly advance payments to reflect more closely those needs. One way Health Services could achieve this would be to require its subrecipients to report their program cash balances and expected costs for the upcoming payment period. Health Services then would advance only enough program funds to cover immediate cash needs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services disagrees with the audit findings. The Bureau of State Audits' (BSA) recommendation is that Health Services implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its quarterly advance payments to more closely reflect each subrecipient's immediate cash needs. The BSA bases this

recommendation upon and cites the Code of Federal Regulations, Title 45, Section 92.21, one of the Department of Health and Human Services (HHS) regulations for the uniform administration of grants to States and local governments, but does not take into account the Code of Federal Regulations, Title 45, Section 92.37, or State statute pertaining to federal bioterrorism grants. Section 92.21, which relates to payments, embraces the principal that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee. Specifically with respect to advances, the regulation provides that grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

Section 92.21 is not, however, the only regulation governing the distribution of HHS money by States. Section 92.37, pertaining to subgrants, requires in subsection (a) that States follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local governments. (See text below.) This section appears to require that Health Services follow state law in this instance.

State law pertaining to bioterrorism preparedness grants specifically provides that "funds appropriated pursuant to the annual Budget Act or some other act for allocation to local health jurisdictions . . . shall be disbursed quarterly to local health jurisdictions" [Health & Safety Code, 101317(d)]. The first quarterly payment is paid upon submission of an application [Health & Safety Code, 101317(d)(1)]. Health Services is directed to "develop a streamlined process for continuation of funding that will . . . assure the continuity of local plan activities" [Health & Safety Code, 101317(d)(1)].

Payments beyond the first quarter are contingent upon approval by Health Services of the local health jurisdiction's plan and the local health jurisdiction's progress in implementing the provisions of the local health jurisdiction's plan, as determined by Health Services. The subsequent payments are not predicated upon the local health jurisdiction's cash flow needs [Health & Safety Code, 101317(d)(2)].

Health Services is authorized to "withhold quarterly payments" if the local health jurisdiction is not in compliance with this article or the terms of that local health jurisdiction's plan [Health & Safety Code, 101317(i)]. This does not appear to authorize Health Services to partially withhold payments, on the basis of perceived need, or for any other reason. Rather, Health Services may only withhold the "quarterly payment" until the local health jurisdiction comes into compliance.

In effect, if Health Services were to follow BSA's recommendation, Health Services would be making partial quarterly payments on the basis of perceived cash needs, not full quarterly payments based on progress as required by state law.

Health Services provides on-going monitoring and technical assistance of local health jurisdictions. For example, each local health jurisdiction is assigned a Health Services project officer who provides technical assistance, monitoring and oversight on an ongoing basis. Health Services issues guidance each year to local health jurisdictions

on the use of federal bioterrorism grant funds. Local health jurisdictions are required to sign an agreement with Health Services and submit a work plan and budget for their allocated bioterrorism funds from the Centers for Disease Control and Prevention and Health Resources and Services Administration. Health Services reviews and approves the work plans and budgets. Annually, Health Services requires each local health jurisdiction to submit two progress reports which include a narrative report and a fiscal report of expenditures; Health Services analyzes the submitted information in order to assess local performance including use of bioterrorism grant funds.

It should be noted that the regulation cited by BSA expresses a preference for advances (it states that the money shall be advanced), and that quarterly advance payments based on progress can have the effect of minimizing the time elapsed between the transfer of funds and disbursement. Thus it cannot be said that the approach provided by statute is inconsistent with the Code of Federal Regulations, Title 45, Section 92.21.

It should also be noted that HHS has been making grant payments to Health Services for several years, with presumably full knowledge of the provisions of Health and Safety Code 101317 for quarterly payments. No objections have been raised by HHS to the requirements in state law. If HHS felt that the quarterly payments required by state law was inconsistent with its principal that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, it could have threatened the state's funding unless the statute were changed. It has not done so.

Code of Federal Regulations, Title 45, Section 92.37(a) *States*. States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:

(1) Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations;

(2) Ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation;

(3) Ensure that a provision for compliance with Section 92.42 is placed in every cost reimbursement subgrant; and

(4) Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

According to our Legal Counsel, the California Health and Safety Code, Section 101317(d)(1) does not preclude Health Services from assessing its subrecipients' cash needs and adjusting the quarterly payments, when necessary to comply with federal regulations. However, if Health Services believes state law requires it to make quarterly payments without regard to the federal regulations pertaining to cash management, it should seek clarification from the U.S. Department of Health and Human Services.

Reference Number:	2005-5-2
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services
and	Senior Centers
Federal Award Numbers and Calendar Years Awarded:	04AACAT3SP; 2003 05AACAT3SP; 2004
Category of Finding:	Eligibility
State Administering Department:	Department of Aging

CRITERIA

Our review of the Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers identified the following compliance requirement related to eligibility:

The United States Code, Title 42, Section 3026(a)(8)(C), states that case management services will be provided by a public agency or a nonprofit private agency.

CONDITION

The Department of Aging (Aging) does not have adequate procedures to ensure that case management providers are public or nonprofit private agencies. Specifically, Aging did not screen case management providers for public or nonprofit status during fiscal year 2004-05. As a result, Aging may not have complied with federal requirements for eligibility. For the eight Area Agencies on Aging we reviewed, we performed procedures to verify that their case management providers were public agencies or nonprofit private agencies.

In response to a similar finding we reported during our fiscal year 2003-04 audit, Aging stated that it would modify contracts to include federal requirements for eligibility, and integrate these requirements into its monitoring process. Although Aging received our finding too late to modify its fiscal year 2004-05 contracts, we noted that it did modify its fiscal year 2005-06 contracts to include such requirements and in March of 2005 it also integrated federal eligibility requirements into its monitoring process.

RECOMMENDATION

Aging should continue to ensure that it complies with its new procedures to screen case management providers for their public or nonprofit private status.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Aging concurs with this finding. As stated above, Aging has already modified contracts for 2005-06 adding requirements that case management providers be public or nonprofit private agencies as required in United States Code, Title 42, Section 3026(a)(8)(C).

Reference Number:	2005-5-3
Federal Catalog Number:	93.767
Federal Program Title:	State Children's Insurance Program
Federal Award Numbers and Calendar Years Awarded:	05-02A5CA5021; 2002 05-03A5CA5021; 2003
Category of Finding:	Eligibility
State Administering Department:	Managed Risk Medical Insurance Board

CRITERIA

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

The Centers for Medicare and Medicaid Services sets broad federal guidelines for the State Children's Insurance Program but allows states to determine the design of the program, eligible groups, benefit packages, payment levels for coverage, and administrative and operating procedures. The Managed Risk Medical Insurance Board's (Insurance Board) state plan includes a description of eligibility standards and a methodology for making eligiblity determinations. The Insurance Board establishes regulations that specify the detailed requirements for determining eligibility. Specifically, the California Code of Regulations, Title 10, Section 2699.6607, requires the program to verify that any person for whom an application is being made meets eligibility requirements, including citizenship, age, and income.

CONDITION

Although the Insurance Board delegates the day-to-day eligibility and enrollment operation for the State Children's Insurance Program to a contractor, it does not always ensure that its contractor maintains critical documentation to support eligibility determinations. Specifically, for two of 42 participants in the State Children's Insurance Program we reviewed, we were unable to verify that they met eligibility requirements for age and citizenship because the Insurance Board's contractor could not provide documentation to support the eligibility determination. Further, the Insurance Board's contractor incorrectly determined that a third participant was eligible for the State Children's Insurance Program because it used the family's net income instead of gross income when determining whether the family met the income requirements for this program. When the Insurance Board does not ensure that its contractor is maintaining critical documentation to support eligibility determinations, it cannot monitor that its contractor is enrolling only applicants who are eligible for the State Children's Insurance Program.

RECOMMENDATIONS

The Insurance Board should ensure that its contractor maintains the critical documentation necessary to demonstrate that participants enrolled in the State Children's Insurance Program are eligible and that its contractor obtains any documentation that is missing from its files. Further, the Insurance Board should ensure that its contractor removes from the program the participant who did not meet income eligibility requirements.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Insurance Board agrees with the Bureau of State Audits' (BSA) findings. The Insurance Board acknowledges that MAXIMUS, the Insurance Board's eligibility and enrollment contractor could not locate, for two of 42 children, citizenship documentation required in the initial eligibility determination process. Although the documentation could not be located, the Insurance Board assures that procedures are in place to assure that the documentation on citizenship or legal alien status is used in the eligibility and enrollment process. Under Healthy Families Program (HFP) regulations, had the documentation not been provided within two months of enrollment, then, the children would have been disenrolled. However, during the Annual Eligibility Review (AER) process, the children were determined to be income eligible and therefore maintained ongoing enrollment in the HFP. According to HFP Regulations, Section 2699.6625, children are not required to re-submit their citizenship documentation. The Insurance Board ensures that its vendor, MAXIMUS, maintains standards and methodologies (i.e. quality controls and system logics) for making accurate eligibility determinations and maintains critical documentation to support these determinations.

MAXIMUS currently has a system in place ensuring that, as soon as any document is received from an applicant, it is immediately scanned into the system and linked to the appropriate Family Member Number. This system ensures that images for relevant documents are captured and stored in the system. However, prior to January 1, 2004, the Insurance Board had a different administrative vendor, EDS. EDS followed the same regulations for disenrolling children without citizenship or legal alien documentation. During the transition of the administrative vendor contract, from EDS to MAXIMUS, not all correspondence that was received from applicants was forwarded to MAXIMUS for system conversion. This was one of the challenges during the transition to the new administrative vendor. The Insurance Board made the business decision based on a cost benefit analysis, to limit the conversion of documents mainly to HFP applications and AER forms. Thus, any documents classified as "correspondence" were not converted. For example, if an original application did not include a birth certificate, the applicant would be asked to submit the document. Once this document was received it would have been classified as a "correspondence" and therefore not necessarily converted over to MAXIMUS. The citizenship documentation for the two children were likely received as "correspondence" during the time in which EDS was the administrative vendor.

The Insurance Board also concurs with the findings that a child was incorrectly enrolled because the vendor used the family's net income rather than the gross income when making the eligibility determination. In this case, the proof of income was not a typical paycheck stub that most individuals provide. In most cases, the documentation provided to the HFP clearly identifies the gross amount paid. The paycheck stub used in this case was for a military service employee. This type of paycheck stub was unique and did not clearly identify the gross paid amount, which resulted in the income being incorrectly entered into the system. MAXIMUS explicitly instructs staff to use the "gross" amount identified on the paycheck stub during the key data entry process. However, this was a particularly unusual paycheck stub and the processing error does not reflect a lack of system control processes in place or the vendor's lack of knowledge about the HFP requirements.

The BSA recommends that the Insurance Board disenroll the child whose family did not originally meet the income requirements for this program. However, the Insurance Board will not disenroll the child from the HFP because during the subsequent 2005 AER process, the child was correctly determined to be income-eligible for the program and continues to be enrolled in HFP. Another eligibility determination will occur for this child during the 2006 AER process.

Reference Number:	2005-8-1
Federal Catalog Number:	93.569
Federal Program Title:	Community Services Block Grant

Federal Award Number and Calendar Year Awarded:	G-03B1CACOSR; 2003
Category of Finding:	Period of Availability
State Administering Department:	Department of Community Services and Development

CRITERIA

Our review of the Community Services Block Grant identified the following compliance requirement relating to period of availability:

The Code of Federal Regulations, Title 45, Section 96.14(a) requires the State to obligate any Community Services Block Grant amounts by the end of the fiscal year following the fiscal year in which the amounts are awarded.

CONDITION

The Department of Community Services and Development (Community Services) did not ensure that it obligated federal funds within the applicable period of availability for the Community Services Block Grant. Specifically, Community Services obligated $215,171 related to nine contracts after the two-year period of availability for these funds. When Community Services does not obligate its federal funds within the period of availability, the federal government may disallow these costs.

RECOMMENDATION

Community Services should ensure that it obligates Community Services Block Grant funds within the grant award's period of availability.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The funds in question were part of the Director's Community Services Block Grant Discretionary fund. While these funds were obligated after the two-year period of availability, the funds were spent within the federal time limits. Community Services will obligate all current and future discretionary funds within the allowable timeframes.

Reference Number:	2005-8-2
Federal Catalog Number:	93.268

Federal Program Title:	Immunization Grants
Federal Award Numbers and Calendar Years Awarded:	H23/CCH922507-01; 2002 H23/CCH922507-02; 2003
Category of Finding:	Period of Availability
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Immunization Grants program identified the following compliance requirement related to period of availability:

The Code of Federal Regulations, Title 45, Section 74.28, states that when a funding period is specified, a recipient may charge to the award only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Health and Human Services awarding agency. The time period that the funds are available to be obligated is stated on the grant notification letter.

CONDITION

The Department of Health Services (Health Services) did not always ensure that it charged the Immunization Grants program only for costs resulting from obligations incurred during the funding period. For nine of 40 expenditures we reviewed, Health Services charged costs totaling $611,298, even though the related obligations were not incurred during the funding period. In eight instances, Health Services obligated the funds from 25 to 225 days after the end of the funding period because of delays in obtaining required signatures on contracts. In the remaining instance, Health Services approved the related purchase order the month after the funding period expired. According to the chief of Field Services, Vaccine Management, and Contracts Section, the Immunization Branch thought it could submit a memo to accounting to encumber funds by the end of the funding period in cases in which the contract would not be finalized until after the funding period. However, the chief also acknowledges that contracts must be signed to obligate funds and funds must be obligated during the funding period. When Health Services does not obligate funds within the funding period of the grant, it risks having to refund the funds to the federal awarding agency.

RECOMMENDATION

Health Services should ensure that it obligates funds within the appropriate funding period of each grant award, which includes obtaining the appropriate signatures on contracts and purchase orders timely.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the findings and subsequent recommendations. It was the understanding of Health Services that by encumbering funds within the appropriate funding period that we were in compliance with the period of availability. To correct this condition, Health Services will put check points in place to ensure that contracts and purchase orders are executed during the period of availability. In addition, Health Services will communicate with all contractors and explain the consequential denial of funding if contracts are not signed and submitted to Health Services by stated deadline.

Reference Number:	2005-8-4
Federal Catalog Number:	93.283
Federal Program Title:	Centers for Disease Control and Prevention—Investigation and Technical Assistance[4]
Federal Award Number and Calendar Year Awarded:	U90/CCU917016-04; 2003
Category of Finding:	Period of Availability
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Public Health Preparedness and Response for Bioterrorism program identified the following compliance requirement related to period of availability:

The Code of Federal Regulations, Title 45, Section 92.23, states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report. The federal agency may extend this deadline at the grantee's request.

CONDITION

The Department of Health Services (Health Services) liquidated obligations incurred under its fiscal year 2003-04 grant award more than 90-days after the award's funding period had expired without requesting an extension from the U.S. Department of

[4] This finding related to the Public Health Preparedness and Response for Bioterrorism program portion of this federal program.

Health and Human Services to do so. Specifically, Health Services paid these obligations, totaling about $8.3 million, more than 90 days to as much as 10 months after the award's funding period had expired. Health Services risks having to return funds to the federal awarding agency when it fails to obtain approval to liquidate these obligations after the 90-day period.

RECOMMENDATION

Health Services should ensure that it obtains the U.S. Department of Health and Human Services' approval to liquidate obligations beyond the 90-day period.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services disagrees with the audit findings but agrees that its request to the federal government should be more specific. On December 30, 2004, Health Services sent a letter to the Centers for Disease Control and Prevention (CDC) requesting the carryover of both unobligated and unexpended funds. The accompanying 2004-05 Interim Feasibility Study Report included $6 million in unobligated funds and $17 million in unliquidated funds. Although Health Services requested the carryover of both unobligated and unexpended funds, the letter did not cite the specific dollar amount for the unliquidated funds. In all future carryover requests, Health Services will clarify that it wishes to extend the time frame for liquidating obligated funds as well as carryover any unobligated funds specifying the dollar amount under each category and the timeframe of the requested extension.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

According to CDC, an agency of the U.S. Department of Health and Human Services, the letter Health Services sent to it requesting the carryover of both unobligated and unexpended funds is neither the same as nor an acceptable substitute for a request for an extension to liquidate all obligations. Consequently, we stand by our finding and are pleased that Health Services plans to request such extensions in the future.

Reference Number:	2005-9-1
Federal Catalog Number:	93.563
Federal Program Title:	Child Support Enforcement
Federal Award Number and Calendar Year Awarded:	75-X-1501; 2004

Category of Finding: Suspension and Debarment

State Administering Department: Department of Child Support Services

CRITERIA

Our review of the Child Support Enforcement program identified the following compliance requirements related to suspension and debarment:

The Code of Federal Regulations, Title 45, Section 76.115, prohibits an excluded party from participating in federal assistance programs. Additionally, Section 76.300 requires the State to verify that the party with which it intends to do business is not presently excluded or disqualified by reviewing the excluded party list, obtaining a certification that the party is not excluded or disqualified, or adding a clause or condition to the covered transaction. The Department of Child Support Services (DCSS) has chosen to obtain a certification as its primary method of verification.

CONDITION

DCSS did not obtain the required suspension and debarment certification from any local child support agencies. Without obtaining the required certification, DCSS risks unknowingly allowing suspended or debarred parties to participate in the federal program. DCSS plans to include the suspension and debarment certification in its fiscal year 2005-06 agreements with local child support agencies. We used an alternative test to determine that the local child support agencies had not been suspended or debarred.

RECOMMENDATION

DCSS should ensure that it obtains the necessary suspension and debarment certifications from local child support agencies before it approves their participation in federal programs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

DCSS will ensure suspension and debarment language is included in the next plan of cooperation (POC) for local child support agency (LCSA) review and approval. It was the department's intention that a new POC be prepared and sent to all LCSAs in federal fiscal year (FFY) 2004-05. However, revisions to the POC were deferred to include a number of additional changes that needed to be made to ensure that the POC was more closely matched with both State and federal statute.

The revised POC for FFY 2005-06 is in final draft and is expected to be disseminated in January 2006. Suspension and Debarment language has been added to the POC.

Once approved for dissemination, a copy of the POC will be provided to the audit team.

Reference Number:	2005-12-4
Federal Catalog Number:	93.767
Federal Program Title:	State Children's Insurance Program
Federal Award Numbers and Calendar Years Awarded:	05-03A5CA5021; 2003 05-02A5CA5021; 2002
Category of Finding:	Reporting
State Administering Department:	Department of Health Services

CRITERIA

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Compliance Supplement, requires the State to submit the Centers for Medicare and Medicaid Services report titled *Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI* (CMS-21).

The Code of Federal Regulations, Title 45, Section 74.21 requires that the recipients' financial management system provide for accurate, current and complete disclosure of the financial results of each project or program sponsored by the U.S. Department of Health and Human Services. In addition, the financial management system must provide accounting records that are supported by source documentation.

CONDITION

The Department of Health Services (Health Services) does not ensure that amounts reported on its quarterly CMS-21 report are classified correctly. Although the total amounts spent on the program reported by Health Services are accurate, we were unable to verify the accuracy of detailed expenditures reported by line item or category of service. Our review of the first quarter report for fiscal year 2004-05 revealed that Health Services was unable to provide supporting documentation for amounts totaling $383,271 that it reported in the Inpatient Hospital Services category. Further, whatever Health Services incorrectly reported in the Inpatient Hospital Services category, it misstated in at least one other category of service.

According to Health Services, it does not receive enough information from its fiscal intermediary to be able to reconcile and accurately report program expenditures by

category of service as required. Health Services is aware of the issue and is working to obtain additional information from its fiscal intermediary to resolve the differences so it can report all the information accurately on its quarterly CMS-21 report.

RECOMMENDATION

Health Services should work with its fiscal intermediary to obtain reports that it can use to accurately report all program expenditures by category of service.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

We concur with the audit finding. Health Services' Payment Systems Division has submitted a request to the fiscal intermediary to make changes in the automated system to provide the necessary information required to accurately report expenditures by category on the CMS-21 report. It is anticipated that the change will be made prior to June 30, 2006.

Reference Number:	2005-13-3
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education

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

CRITERIA

Our review 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 cluster 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 400(d), requires the State to identify federal award information to subrecipients at the time of the award. This includes such information as the Catalog of Federal Domestic Assistance title and number, award name and number, and name of the federal agency.

Further, the Code of Federal Regulations, Title 45, Section 98.11(b)(4), requires the Department of Education (Education) to ensure that the child care cluster programs comply with all federal requirements and Education's Child Care and Development

Fund Plan (plan), which was submitted to and approved by the U.S. Department of Health and Human Services. In the approved plan, Education committed to reviewing every three years each contractor providing local child care and development services.

CONDITION

Education did not adequately fulfill its subrecipient monitoring responsibilities for the child care cluster programs. Specifically, for 10 of the 40 award documents we reviewed, Education did not provide subrecipients with the name of the federal awarding agency or the applicable federal laws and regulations. Further, in three of these 10 instances, Education also did not provide subrecipients with the federal catalog number. According to Education, for six of the 10 cases it inadvertently omitted the name of the federal agency and applicable laws and regulations when it attempted to combine the standard contract provisions for state and federally funded grants. In the other four cases, Education asserted that these two items were left out due to staff oversight. Finally, Education indicated that it left out the federal catalog number for three of our sample items at the direction of its accounting unit. However, Education plans to include this information in the future. When Education does not identify all the required federal award information, it cannot ensure that subrecipients of the child care cluster programs correctly identify all their federal grant awards. As a result, subrecipients' independent auditors, who must conduct audits in accordance with OMB Circular A-133, may not be aware of all grants they must consider for audit.

In addition, Education lacks sufficient procedures to ensure that it performs contract-monitoring reviews (CMR) within the required three-year period as established in its plan. Specifically, although Education's management approved a CMR schedule for fiscal year 2004-05, Education did not have a system in place to monitor whether its staff actually performed the CMRs. Thus, Education has no assurance that the CMRs were conducted and that it is meeting its obligations as established in the plan. In fact, we found that for 15 of the 40 subrecipients we reviewed, Education did not conduct CMRs within the required three-year period. The extent to which Education was late in conducting these CMRs ranged from two months to four years. Failure to perform CMRs in accordance with its plan may prevent early detection and correction of deficiencies in the services provided by subrecipients.

RECOMMENDATIONS

Education should ensure that it provides all the required federal award information to subrecipients. Additionally, it should take the steps necessary to monitor and ensure that its staff perform CMRs at least every three years, in accordance with its plan.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education administered contracts for child care cluster programs have and continue to contain all required federal award information as required by OMB Circular A-133. However, information on the federal awarding agency name, the applicable federal laws and regulations, and the federal catalog number was inadvertently omitted from the 2004-05 Funding Terms & Conditions (FT&Cs) related to 1 of 27 child care programs administered by Education, effecting 58 contracts. Federal award information was provided in the 2004-05 FT&Cs in all other programs and contracts within those programs, as has been Education's historical practice. This single oversight resulted from large-scale changes in the FT&Cs related to contract consolidation and simplification undertaken by Education in response to recommendations from the Legislature. The oversight was corrected for the 2005-06 fiscal year.

Education will develop procedures to collect and maintain CMR information in a central location and use the information to monitor the frequency of reviews. During fiscal year 2004-05, based on instructions from both the Legislative and Department of Finance staff, Education redirected all staff conducting CMRs to perform the Error Rate Study mandated by the Health and Human Services Trailer Bill (Chapter 229, Statutes of 2004, Senate Bill 1104, Committee on Budget and Fiscal Review). Of the 15 subrecipients that Education did not conduct a CMR within the required three-year period, 14 were delayed because of the mandated Error Rate Study.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

Despite its opening statement to the contrary, Education acknowledges that it did not provide subrecipients of the two federal programs we audited—the Child Care Development Block Grant and the Child Care Mandatory and Matching Funds of the Child Care and Development Fund—all of the award information required by OMB Circular A-133. We can neither confirm nor refute Education's assertion that this oversight did not occur in any of the other child care programs it administers because we did not audit them. However, we would remind Education that OMB Circular A-133 requires that we report on compliance for each program rather than for all programs in the aggregate.

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:	2004 G996005; 2004

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 Years Awarded:	2004 G999004; 2004 2004 G999005; 2004

Reference Number:	2005-13-4
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Number and Calendar Year Awarded:	6X07HA0004-14; 2004
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Services

CRITERIA

Our review of the HIV Care Formula Grants program identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* (OMB Circular A-133), Section 400(d)(3), requires the State to monitor subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. In its state application for funding to administer the HIV Care Formula Grants program, the Department of Health Services (Health Services) established specific timeframes for conducting periodic monitoring site visits of its case management and care services subrecipients. Specifically, in its state application for grant funds, Health Services specified that program staff for case management would perform routine site visits of its subrecipients at least every 18 months and program staff for care services would perform site visits no less than once per three-year period. The state application also indicated that Health Services would provide a written report documenting the results of the reviews and require corrective action plans, if needed, from subrecipients. Additionally, Health Services has established an internal policy

with a goal that case management staff will submit written reports to subrecipients documenting the results of the site visits within 90 days of the site visit.

Further, OMB Circular A-133 describes the audit requirements for recipients of federal funds. Section 200 requires subrecipients spending $500,000 or more annually in federal awards to have A-133 audits. Section 320 requires the submission of the audit report to the State for review within nine months of the end of the subrecipient's audit period. For subrecipients of HIV Care Formula Grants funds that do not submit audit reports on time, Health Services has established an internal policy requiring follow-up with subrecipients at 90 days and 180 days after the due date of the audit report.

CONDITION

In its state application for funding to administer the HIV Care Formula Grants program, Health Services identified site visits as a key component of its subrecipient monitoring process. However, Health Services did not perform site visits as frequently as the timeframes specified in its state application and did not always provide written reports to subrecipients within required timeframes. Specifically, we found that:

- Health Services did not conduct site visits within the 18-month period ending June 30, 2005, for five of 20 subrecipients of the case management program that received funding for the 18-month period. It completed four of the site visits from three to 14 months late. At the conclusion of our audit fieldwork, Health Services also had not completed the fifth site visit, which was four months late. According to program management, Health Services was unable to complete all site visits on time because of vacant positions that were a result of budget cuts and the inability to hire staff because of nursing shortages. Although Health Services did not complete all site visits within 18 months, it has improved significantly over last year's results. In our previous audit report, we noted that the case management program did not complete 10 of 20 site visits on time.
- Health Services did not conduct site visits for 11 of 37 subrecipients of the care services program within the three years ending on June 30, 2005.

In addition, Health Services did not provide written reports documenting the results of site visits within 90 days to four of five case management program subrecipients reviewed. In three instances, Health Services sent the written reports from 71 to 250 days late. In another instance, it had not yet sent the report, which was already more than 100 days late, as of September 30, 2005.

Further, Health Services did not follow its procedures to ensure that it received audit reports promptly from one of 10 nonprofit subrecipients that received more than $500,000 in HIV Care Formula Grant funds. Specifically, Health Services received this subrecipient's audit report 160 days late. Although it sent out late notices prior to and within 30 days after the federal due date, it did not complete subsequent follow-up at 90 days as required.

Because it does not conduct site visits within the frequency it established in its state application, Health Services has less assurance that subrecipients are complying with applicable laws, regulations, and provisions of contracts or grant agreements. Also, Health Services' failure to obtain audit reports promptly may prevent early detection and correction of deficiencies in services provided by subrecipients.

RECOMMENDATIONS

Health Services should ensure that it conducts site visits in accordance with its state application and should ensure that it provides written reports documenting results of site visits to its subrecipients within the timeframes established. Health Services also should ensure that its staff members follow its process for following up on delinquent audit reports from subrecipients.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Case Management Program (CMP):

Did not conduct site visits within the 18-month period ending June 30, 2005.

Health Services concurs. CMP's self-established goal is to visit each subrecipient every 18 months. Of the five sites not visited within that timeframe, four visits have been completed and the fifth is scheduled for February 8, 2006. Site visits are performed by a monitoring team consisting of a Health Program Analyst (HPA), a Registered Nurse (RN), and a Social Worker. During the period of this audit, one of four HPA positions was vacant for six months due to budgetary cut backs. Of the two RN positions only one was filled for a six-month period due to the general shortage of nurses in State service. The posting of vacant nurse positions has just ended and applications have been received from qualified candidates. Assuming staffing issues are resolved future site visits should be concluded within the required timeframe.

Care Services Program (CSP):

Did not conduct site visits for 11 of 37 subrecipients.

Health Services concurs. This process is guided by resources available within the program. This year resources were limited due to prolonged staff vacancies. The Office of AIDS' Care Services section which administers the CSP reduced the number of vacancies within the CSP. The CSP has completed three of the eleven county monitoring requirements and the remaining is projected to be completed before the end of December 2006. In addition to monitoring by program and fiscal staff, the CSP annually funds a full time auditor assigned by Health Services, Audits and Investigations Division.

CMP:

Did not provide written reports documenting the results of site visits.

Health Services concurs. CMP's self-established goal is to present a report of the results of a site visit to a subrecipient within 90 days of the visit. This goal was not

attained due to staff shortages during this period. With a higher level of current staffing, and more careful monitoring of report submissions, this requirement should be met during fiscal year 2005-06.

CMP:

Did not follow its procedures to ensure that it promptly received audit reports from non-profit subrecipients.

Delinquent Audit Report:

Inland AIDS Foundation: Health Services concurs. Records indicate the A-133 Audit was due to Office of AIDS April 30, 2005. A delinquent notice was sent May 24, 2005, but no follow-up was done until the audit was received four months later.

The Community Based Care Section will continue to closely monitor audit responses using the data base designed for that purpose. It also, during the course of this audit, received clarifications from Bureau of Audits on due dates, and required follow-up activity.

Reference Number:	2005-13-6
Federal Catalog Number:	93.268
Federal Program Title:	Immunization Grants
Federal Award Numbers and Calendar Years Awarded:	H23/CCH922507-01; 2002 H23/CCH922507-02; 2003
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Immunization Grants program identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), describes the requirements the State must follow when it passes federal funds through to subrecipients. Section 400(d) requires the State to inform each subrecipient of specific federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the award name and number, and the name of the federal agency. Section 400(d) also requires the State to ensure that

subrecipients expending $500,000 or more in federal assistance meet applicable audit requirements, including the submission of an audit report to the State within nine months after the end of the audit period.

CONDITION

The Department of Health Services (Health Services) did not fulfill its subrecipient monitoring responsibilities for its Immunization Grants program. Specifically, for the 40 subrecipients we reviewed, Health Services did not provide required grant-related information such as the CFDA title and number, the award name and number, and the name of the federal agency. According to the Immunization Branch's Chief of Field Services, Vaccine Management, and Contracts Section, the Immunization Branch was not aware of this federal requirement until our audit raised the question. When Health Services does not identify the federal award information, it cannot ensure that subrecipients of the Immunization Grants program correctly identify all their federal grant awards. As a result, subrecipients' independent auditors who must conduct audits in accordance with OMB Circular A-133 may not be aware of all grants they must consider for audit. The State uses the independent audits as one method to monitor subrecipients' compliance with applicable federal requirements and program goals.

Moreover, Health Services did not determine whether any of its five nonprofit subrecipients were required to submit audit reports. Based on information available at Health Services, we determined that it provided at least $500,000 in federal assistance during fiscal year 2003-04 from the Immunization Grants program to two of its five nonprofit subrecipients. Although Health Services' Immunization Branch received an audit report from one of these two subrecipients and had a process in place to follow up on findings related to the program for any audit reports received, it was unaware that it should have procedures to ensure that it received all required audit reports in a timely manner from the nonprofit subrecipients required to submit them. Without an effective system to identify all nonprofit subrecipients required to have audits and to track the prompt receipt of these required audit reports, Health Services has reduced assurance that its nonprofit subrecipients are spending federal assistance according to applicable laws and regulations.

RECOMMENDATIONS

Health Services should ensure that it identifies and provides all required federal award information to subrecipients of the Immunization Grants program at the time of the awards. Also, Health Services should establish procedures to identify those nonprofit subrecipients required to submit audit reports and should obtain audit reports from them in a timely manner.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with the findings and subsequent recommendations. The process for preparing awards to subrecipients has already been updated to include the notification of all required federal award information. As mentioned in the audit findings, Health Services was previously unaware of this requirement.

In addition, as a result of the audit, Health Services now understands its role in:

1) identifying those required to submit audit reports and
2) its responsibility in monitoring the submission of said reports.

To comply with this condition Health Services will put check points in place to ensure that audit reports are received and reviewed in a timely manner.

Reference Number:	2005-14-2
Federal Catalog Number:	93.053
Federal Program Title:	Nutrition Services Incentive Program
Federal Award Numbers and Calendar Years Awarded:	04AACANSIP; 2003 05AACANSIP; 2005
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Aging

CRITERIA

Our review of the Nutrition Services Incentive Program identified the following compliance requirement related to special tests and provisions:

The United States Code, Title 42, Section 3030a (d)(2), requires states to promptly and equitably distribute cash received in lieu of commodities to recipients of grants or contracts. The Department of Aging (Aging) generally distributes cash quarterly to Area Agencies on Aging (area agencies) based on the proportion of meals each area agency serves of the total meal counts reported in the prior year.

CONDITION

Although Aging has implemented a process to ensure the prompt and equitable distribution of the cash it receives in lieu of commodities to its area agencies for its Nutrition Services Incentive Program, we found that it did not follow its process during

fiscal year 2004-05. Specifically, when determining the amount of cash to distribute to the area agencies, Aging used meal counts for only three quarters of a prior fiscal year rather than meal counts for that entire fiscal year as required. As a result, some area agencies received more Nutrition Services Incentive Program funding and others received less than they otherwise would have received. For example, Aging allocated $11,544 more to one area agency and $8,028 less to a second than these two area agencies would have received had Aging used the correct meal counts. According to Aging, it did not detect this error because staff did not follow its review process, which requires a supervisor to review the accuracy of the information and the calculations made by staff to determine the amount of cash to be distributed to each area agency. As a result of this error, Aging cannot ensure that it equitably distributed cash payments to its area agencies during fiscal year 2004-05.

RECOMMENDATION

Aging should ensure that its staff perform the appropriate reviews to ensure the accuracy of the information used in determining the amount of cash to distribute to the area agencies.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Aging concurs with this finding. Aging has formalized the existing procedures used to allocate funds for the Nutrition Services Incentive Program (NSIP). These procedures require both the Accounting Manager and the Budget Manager to review the annual NSIP allocations to insure Aging uses the appropriate full year meal counts as the basis for allocating the funds.

Reference Number:	2005-14-4
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-0405CA5028; 2004 05-0505CA5028; 2004, 2005
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

CRITERIA

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

The Code of Federal Regulations, Title 42, sections 431.51(b) and (c), allows recipients to obtain Medicaid services from any provider qualified and willing to furnish the services. However, these regulations do not prohibit the state Medicaid agency from setting reasonable standards for provider qualifications. For example, the California Welfare and Institutions Code, Section 14043.6, requires automatic suspension from the state Medicaid program for any provider whose license, certificate, or other approval has been revoked or suspended by a federal, California, or another state's licensing, certification, or approval authority, or has been otherwise lost or surrendered while a disciplinary hearing was pending. Additionally, the Code of Federal Regulations, Title 42, Section 442.101, requires specific Medicaid facilities to obtain certification. Sections 455.104 through 455.106 identify disclosures providers must provide, and Section 431.107 requires an agreement between the State and each provider.

CONDITION

Our review of selected Medicaid providers revealed that the Department of Health Services (Health Services) did not always have the required agreements, disclosures, and certifications on file. Of the 30 providers we reviewed, Health Services did not have provider agreements on file for 15 providers and did not have the required disclosure on file for one provider. Further, when we questioned Health Services, it discovered that one provider we reviewed was not certified properly. According to Health Services' Provider Enrollment Branch chief, it is pursuing a temporary suspension from the Medicaid program for the provider without appropriate certification. In response to similar findings in our fiscal year 2002-03 and 2003-04 audit reports, Health Services indicated it has implemented a reenrollment process and will reenroll all Medicaid providers on a continuous basis. This process will verify and update enrollment information and help ensure compliance with state and federal regulations. According to Health Services, it continues to prioritize provider types for the reenrollment process based on the provider types with the highest risk.

When Health Services cannot demonstrate that it has obtained provider certifications, proper agreements, and disclosures, it cannot ensure that it made Medicaid claim payments only to eligible providers.

RECOMMENDATION

Health Services should continue its reenrollment process to ensure that it obtains the appropriate certifications, agreements, and disclosures.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with this recommendation. Health Services continues to categorize reenrollment of those providers originally enrolled prior to 1998 as a high priority in its effort to reduce fraud in the Medi-Cal program, by assuring that only those eligible providers will be allowed to bill Medi-Cal.

The reenrollment plan will insure that all Medi-Cal providers will be re-examined, as a continuous process, to verify and update their original enrollment information and to ensure continued compliance with current state and federal regulations. The Provider Enrollment Branch (PEB) continues to implement procedures to more efficiently review and process reenrollment applications based upon data driven targeting of established fraud indicators (consistent with the Malcolm Sparrow anti-fraud model). As part of this process, high-risk provider types will continue to be identified, by PEB and Audits and Investigations (A&I) using an on-going risk assessment analysis and the annual Medi-Cal Payment Error Study (MPES), allowing PEB to prioritize the review of these providers reenrollment. This will provide for the verification and update of the original provider enrollment information, ensuring compliance with current state and federal regulations.

PEB will annually review current practices to identify and prioritize policies and procedures that can be updated and streamlined, facilitating the reenrollment process.

The reenrollment plan is included in Health Services' Medi-Cal Fraud Control Strategic Plan. A&I and PEB will implement the plan for reenrollment of all high-risk provider types such as physician groups identified in the 2004 MPES in fiscal year 2005-06. A&I and PEB will develop and implement a process to incorporate the results of each MPES in annual reenrollment production plans in fiscal year 2006-07. The plan for reenrolling providers on a continuous basis will be developed by June 30, 2006.

With respect to health facilities certified by Health Services' Licensing and Certification Division (L&C), L&C amended its licensure application forms to include the disclosure requirements under Code of Federal Regulations, Title 42, Sections 455.104 through 106. The final draft is undergoing legal review, and will be implemented upon clearance. L&C is also coordinating with Medi-Cal in developing the provider agreements for non-long term care facilities. L&C will be reviewing Medi-Cal's proposed provider agreement, which is in final draft, and will be evaluating options for either adopting the agreement, with special instructions for health facilities, or developing a more health facility-specific version. L&C hopes to achieve compliance to these requirements by June 30, 2006.

U.S. DEPARTMENT OF HOMELAND SECURITY

Reference Number:	2005-9-3
Federal Catalog Number:	97.004 (formerly 16.007)
Federal Program Title:	State Domestic Preparedness Equipment Support Program
Federal Award Numbers and Calendar Years Awarded:	2002-TE-CX-0088; 2002 2002-TE-CX-0133; 2002 2003-MU-T3-0035; 2003 2003-TE-TX-0167; 2003 2004-GE-T4-0045; 2004
Category of Finding:	Suspension and Debarment
State Administering Departments:	Governor's Office of Emergency Services[5] Governor's Office of Homeland Security

CRITERIA

Our review of the State Domestic Preparedness Equipment Support Program identified the following compliance requirements related to suspension and debarment:

The Code of Federal Regulations, Title 28, Section 66.35, requires that the State neither make an award nor permit a subgrantee to make an award to any party that is debarred or suspended or is otherwise excluded from or ineligible from participating in federal assistance programs. Further, Title 28, Section 67.300, states that before entering into a covered transaction with another party, recipients of federal funds must verify that the other party is not excluded or disqualified by checking the Excluded Parties List System, collecting a certification from the other party, or adding a clause or condition to the covered transaction with that party.

CONDITION

The Governor's Office of Emergency Services (Emergency Services) did not have adequate procedures to ensure that subrecipients receiving funds from the State Domestic Preparedness Equipment Support Program were not suspended or debarred. Before making awards to subrecipients, Emergency Services did not check the federal listing of debarred and suspended parties, obtain certifications stating that the subrecipients were not debarred or suspended, nor add a clause or condition to

[5] Until March 2005, the Governor's Office of Emergency Services administered the State Domestic Preparedness Equipment Program. Beginning in March 2005, the Governor's Office of Homeland Security took over this program's administration.

covered transactions. Because Emergency Services did not take any of these steps, it risked unknowingly allowing suspended or debarred parties to participate in this federal program. However, for the 33 subrecipients that we reviewed, we used an alternative test to determine that they had not been suspended or debarred.

RECOMMENDATION

Before awarding funds from federal grant programs to subrecipients, the Governor's Office of Homeland Security (Homeland Security) should take one of the following steps: check the federal listing of suspended and debarred parties; require certifications from subrecipients stating that they and their key employees are not suspended or debarred; or add a clause or condition to covered transactions with subrecipients.

DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS

Emergency Services: For State Domestic Preparedness Equipment Support Program grants awarded through March 31, 2005, Emergency Services agrees with the finding. Homeland Security assumed all programmatic and administrative responsibility for these grants on April 1, 2005. Consequently, Emergency Services cannot provide a response for grants awarded on or after April 1, 2005, and does not have the responsibility for implementing a corrective action plan.

Homeland Security: Before awarding funds from federal grant programs to subrecipients, Homeland Security will ensure that it did not provide federal financial assistance to a suspended or debarred party by verifying that the party is not excluded or disqualified by looking at the excluded parties list, and by adding a clause or condition to our "certification" list with that party.

Reference Number:	2005-12-2
Federal Catalog Number:	97.036
Federal Program Title:	Public Assistance Grants
Year Awarded:	State fiscal year 2004-05
Category of Finding:	Reporting
State Administering Department:	Governor's Office of Emergency Services

CRITERIA

Our review of the Public Assistance Grants program identified the following compliance requirement related to reporting:

The Code of Federal Regulations, Title 44, Section 206.204(f) requires the Governor's Office of Emergency Services (Emergency Services) to submit quarterly progress reports for the Public Assistance Grants program to the Federal Emergency Management Agency, part of the U.S. Department of Homeland Security.

CONDITION

Emergency Services reported incorrect financial information in its March 2005 quarterly progress report. Specifically, Emergency Services did not include two of the 20 projects we reviewed in the report. As a result, Emergency Services understated project obligations by $173.3 million and project expenditures by $156.8 million. According to one of its program managers, Emergency Services was unable to determine why it did not include these two projects in its progress report. He further stated that Emergency Services has rewritten a computer query and that he believes the concern is now resolved.

RECOMMENDATION

Emergency Services should develop and implement a process for reviewing quarterly progress reports to ensure that they are complete and accurate.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services agrees with the finding and has corrected the financial database report to reflect the accurate data for the following quarter. In the future, the financial data will be cross-referenced with the program report for accuracy.

Reference Number:	2005-12-6
Category of Finding:	Reporting
State Administering Department:	Governor's Office of Emergency Services

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

CRITERIA

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

The Code of Federal Regulations, Title 44, Section 13.20, requires the Governor's Office of Emergency Services (Emergency Services) to maintain fiscal controls and accounting procedures to properly track and accurately report financial activities related to federal grants. Additionally, Section 13.41(b) requires Emergency Services to use the financial status report form to report on the status of federal funds for nonconstruction grants. To meet this requirement, the Federal Emergency Management Agency (FEMA), an agency within the U.S. Department of Homeland Security, requires Emergency Services to submit quarterly financial status reports for each disaster. FEMA mandates that these status reports are to include total recipient and subrecipient nonfederal expenditures and administrative expenses.

CONDITION

Emergency Services' financial status reports do not always contain complete expenditure information. We tested 22 financial status reports for the quarter ending March 2005—of which 20 contained information for the Hazard Mitigation Grant program and 20 contained information for the Public Assistance Grants program. We found that of the 20 financial status reports for the Hazard Mitigation Grant program, 16 did not identify Emergency Services share of outlays while none identified the subrecipients' shares of outlays. Although Emergency Services now reports its share of outlays under the Hazard Mitigation Grant program for those disasters that occurred in October 2003 and later, Emergency Services states that it does not have a process to capture the expenditure information it receives from subrecipients. Further, Emergency Services did not separately disclose its and the subrecipients' administrative costs in any of the 22 financial status reports. FEMA requires separate reporting of administrative expenditures.

RECOMMENDATIONS

Emergency Services should report the subrecipients' share of Hazard Mitigation Grant program outlays. Additionally, Emergency Services should separately report its and the subrecipients' administrative costs per FEMA instructions.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services has made several attempts over the years to discuss with FEMA how best to report California disaster activity (which involves more than 20,000 plus individual projects) into a single generic format. Given the repeat nature of this finding, Emergency Services will continue to work with FEMA management to reach a

consensus on how to report on-going disaster activity. Additionally, Emergency Services will review its internal fiscal and grant tracking systems to determine the availability of information.

U.S. DEPARTMENT OF HOMELAND SECURITY

Federal Catalog Number:	97.036
Federal Program Title:	Public Assistance Grants
Year Awarded:	State fiscal year 2004-05

Federal Catalog Number:	97.039
Federal Program Title:	Hazard Mitigation Grant
Year Awarded:	State fiscal year 2004-05

Reference Number:	2005-14-5
Federal Catalog Number:	97.067
Federal Program Title:	Homeland Security Grant Program
Federal Award Number and Calendar Year Awarded:	2005-GE-T5-0015; 2005
Category of Finding:	Special Tests and Provisions
State Administering Department:	Governor's Office of Homeland Security

CRITERIA

Our review of the Homeland Security Grant Program determined the following compliance requirements related to Special Tests and Provisions:

The 2005 grant provisions for four of the six programs under the Homeland Security Grant Program require the Governor's Office of Homeland Security (Homeland Security) to obligate at least 80 percent of the total grant amount to subrecipients within 60 days of the grant award date. These provisions also require Homeland

Security to comply with the Office of Justice Programs Financial Guide, which states that an obligation is incurred when funds are encumbered. Homeland Security encumbers funds when it approves a subrecipient's application for grant funding.

CONDITION

Homeland Security did not obligate 80 percent of the 2005 Homeland Security Grant Program funds to subrecipients within 60 days of receiving the grant award for the four programs to which this requirement applies. Specifically, despite receiving its grant award on March 14, 2005, Homeland Security did not obligate 80 percent of the funds until August 10, 2005, nearly three months late. According to the assistant deputy director for grants management, Homeland Security did not obligate these funds within the 60 days because it believed it first needed the U.S. Department of Homeland Security's approval of the State's Initial Strategy Implementation Plan (strategy plan). When an official with the U.S. Department of Homeland Security informed Homeland Security on August 9, 2005, that the obligation of the funds was not tied to the approval of the strategy plan, Homeland Security obligated on the next day amounts to each of the four programs that were equal to or in excess of the 80 percent required by the grant's provisions. Because it did not obligate these funds within the required 60 days, however, Homeland Security may have unnecessarily delayed the subrecipients' ability to conduct homeland security activities covered by the grant.

RECOMMENDATION

Homeland Security should ensure that it obligates 80 percent of the funds to its subrecipients within 60 days of receiving its federal award.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Henceforth, Homeland Security will ensure it obligates all required federal funds within the mandatory 60-day receipt of award.

AUDITEE'S SECTION

Schedule of Federal Assistance

Prepared by
Department of Finance

STATE OF CALIFORNIA
SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 2005

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	31,812	
Wetlands Reserve Program	10.072	9,000	
Market Protection and Promotion	10.163	360,256	
Farm Labor Housing Loans and Grants	10.405	1,648,576	
Food Donation	10.550	96,012,810	*
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	831,263,913	
Child and Adult Care Food Program	10.558	245,934,036	
State Administrative Expenses for Child Nutrition	10.560	16,909,612	
Commodity Supplemental Food Program	10.565	3,131,361	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	2,407,325	
Team Nutrition Grants	10.574	133,816	
Senior Farmers Market Nutrition Program	10.576	490,796	
Cooperative Forestry Assistance	10.664	3,840,989	
Schools and Roads-Grants to States	10.665	63,143,502	
National Forest-Dependent Rural Communities	10.670	153,795	
Rural Development, Forestry, and Communities	10.672	4,424	
Forest Stewardship Program	10.678	131,791	
Other - U.S. Department of Agriculture	10.999	29,124,760	
Total Excluding Clusters		1,294,732,574	
Food Stamp Cluster			
Food Stamps	10.551	2,262,419,409	*
State Administrative Matching Grants for Food Stamp Program	10.561	388,092,594	
Total Food Stamp Cluster		2,650,512,003	
Child Nutrition Cluster			
School Breakfast Program	10.553	236,372,005	
National School Lunch Program	10.555	919,804,444	
Special Milk Program for Children	10.556	791,476	
Summer Food Service Program for Children	10.559	13,956,600	
Total Child Nutrition Cluster		1,170,924,525	
Emergency Food Assistance Cluster			
Emergency Food Assistance Program (Administrative Costs)	10.568	6,795,453	
Emergency Food Assistance Program (Food Commodities)	10.569	48,376,447	*
Total Emergency Assistance Cluster		55,171,900	
Research & Development Cluster			
Agricultural Research-Basic and Applied Research	10.001	17,731	
Total U.S. Department of Agriculture		5,171,358,733	
Department of Commerce			
Economic Development-Support for Planning Organizations	11.302	100,000	
Anadromous Fish Conservation Act Program	11.405	940,143	
Interjurisdictional Fisheries Act of 1986	11.407	162,549	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Coastal Zone Management Administration Awards	11.419	5,610,471	
Coastal Zone Management Estuarine Research Reserves	11.420	2,937,776	
Marine Sanctuary Program	11.429	70,455	
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	11.438	8,432,151	
Habitat Conservation	11.463	64,487	
Fisheries Disaster Relief	11.477	288,708	
Other - U.S. Department of Commerce	11.999	17,949	
Total U.S. Department of Commerce		18,624,689	
Department of Defense			
Navigation Projects	12.107	67,529	
Planning Assistance to States	12.110	2,967,940	
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	11,808,635	
Military Construction, National Guard	12.400	1,822,200	
National Guard Military Operations and Maintenance (O&M) Projects	12.401	48,825,478	
National Guard Civilian Youth Opportunities	12.404	4,874,125	
Other - U.S. Department of Defense	12.999	2,273,699	
Total Excluding Clusters		72,639,606	
Research & Development Cluster			
Aquatic Plant Control	12.100	90,119	
Total U.S. Department of Defense		72,729,725	
Department of Housing and Urban Development			
Manufactured Home Construction and Safety Standards	14.171	223,038	
Community Development Block Grants/State's Program	14.228	43,727,769	
Emergency Shelter Grants Program	14.231	6,106,342	
Supportive Housing Program	14.235	4,989,427	***
HOME Investment Partnerships Program	14.239	97,648,633	***
Housing Opportunities for Persons with AIDS	14.241	2,675,129	
Equal Opportunity in Housing	14.400	2,709,147	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	50,726	
Total Excluding Clusters		158,130,211	
Section 8 Project-Based Cluster			
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	48,878	
Section 8 Tenant-Based Cluster			
Section 8 Rental Voucher Program	14.855	3,853,924	
Total U.S. Department of Housing and Urban Development		162,033,013	
Department of the Interior			
Distribution of Receipts to State and Local Governments	15.227	10,918	
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	1,151,838	
Small Reclamation Projects	15.503	286,533	
Water Reclamation and Reuse Program	15.504	5,698	
Anadromous Fish Conservation	15.600	32,994	
Endangered Species Conservation	15.612	407,854	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	611,582	
Cooperative Endangered Species Conservation Fund	15.615	2,574,707	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Clean Vessel Act	15.616	819,000
Sportfishing and Boating Safety Act	15.622	194,260
Wildlife Conservation and Restoration	15.625	73,984
Landowner Incentive	15.633	12,106
Earthquake Hazards Reduction Program	15.807	35,939
U.S. Geological Survey-Research and Data Collection	15.808	141,385
Historic Preservation Fund Grants-In - Aid	15.904	1,092,997
Outdoor Recreation-Acquisition, Development and Planning	15.916	3,937,926
Research Information	15.975	676,044
Other - U.S. Department of the Interior	15.999	29,387,328
Total Excluding Clusters		41,453,093
Fish and Wildlife Cluster		
Sport Fish Restoration	15.605	10,583,483
Wildlife Restoration	15.611	4,065,569
Total Fish and Wildlife Cluster		14,649,052
Research and Development Cluster		
Anadromous Fish Conservation	15.600	16,504
Coastal Wetlands Planning, Protection and Restoration Act	15.614	3,155
U.S. Geological Survey-Research and Data Collection	15.808	62,322
Total Research and Development Cluster		81,981
Total U.S. Department of the Interior		56,184,126

Department of Justice

State Domestic Preparedness Equipment Support Program	16.007	61,528,354
Offender Reentry Program	16.202	267,744
Juvenile Accountability Incentive Block Grants	16.523	4,991,475
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	5,637,040
Title V-Delinquency Prevention Program	16.548	1,559,617
Part E-State Challenge Activities	16.549	1,092,087
State Justice Statistics Program for Statistical Analysis Centers	16.550	51,586
National Criminal History Improvement Program (NCHIP)	16.554	2,646,948
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	416,233
Crime Laboratory Improvement-Combined Offender DNA Index System Backlog Reduction	16.564	2,522,341
Crime Victim Assistance	16.575	33,732,107
Crime Victim Compensation	16.576	26,636,714
Byrne Formula Grant Program	16.579	56,331,516
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	141,764
Drug Court Discretionary Grant Program	16.585	50,898
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	58,831,643
Violence Against Women Formula Grants	16.588	10,076,444
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	205,511
Local Law Enforcement Block Grants Program	16.592	2,590,494
Residential Substance Abuse Treatment for State Prisoners	16.593	5,936,978
State Criminal Alien Assistance Program	16.606	77,356,015
Community Prosecution and Project Safe Neighborhoods	16.609	1,370,731
Regional Information Sharing Systems	16.610	4,603,942
Public Safety Partnership and Community Policing Grants	16.710	4,397,692
Enforcing Underage Drinking Laws Program	16.727	315,478

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
National Incident Based Reporting System	16.733	46,891
Other - U.S. Department of Justice	16.999	890,593
Total Excluding Clusters		364,228,836
Research and Development Cluster		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	42,211
Total U.S. Department of Justice		364,271,047

Department of Labor

Labor Force Statistics	17.002	8,039,223
Compensation and Working Conditions	17.005	850,200
Labor Certification for Alien Workers	17.203	3,665,954
Unemployment Insurance	17.225	5,274,682,163
Senior Community Service Employment Program	17.235	7,128,419
Trade Adjustment Assistance-Workers	17.245	25,263,585
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	680,557
Work Incentives Grant	17.266	2,018,931
Occupational Safety and Health-State Program	17.503	23,360,092
Consultation Agreements	17.504	6,147,595
Mine Health and Safety Grants	17.600	325,801
Disability Employment Policy Development	17.720	548,882
Veterans' Employment Program	17.802	453,258
Other-U.S. Department of Labor	17.999	1,677
Total Excluding Clusters		5,353,166,337
Employment Services Cluster		
Employment Service	17.207	95,140,636
Disabled Veterans' Outreach Program (DVOP)	17.801	12,842,130
Local Veterans' Employment Representative Program	17.804	7,287,079
Total Employment Services Cluster		115,269,845
WIA Cluster		
WIA Adult Program	17.258	137,766,338
WIA Youth Activities	17.259	141,922,744
WIA Dislocated Workers	17.260	192,828,387
Total WIA Cluster		472,517,469
Total U.S. Department of Labor		5,940,953,651

Department of Transportation

Boating Safety Financial Assistance	20.005	4,180,319
Airport Improvement Program	20.106	146,929
Motor Carrier Safety	20.217	10,458,171
National Motor Carrier Safety	20.218	24,334
Local Rail Freight Assistance	20.308	128,053
High Speed Ground Transportation-Next Generation High Speed Rail Program	20.312	838,508
Federal Transit - Metropolitan Planning Grants	20.505	42,849,833
Formula Grants for Other Than Urbanized Areas	20.509	17,411,440
Pipeline Safety	20.700	2,625,599
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	433,331
Total Excluding Clusters		79,096,517

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	2,285,098,443	***
Federal Transit Cluster			
Federal Transit - Capital Investment Grants	20.500	6,984,218	
Highway Safety Cluster			
State and Community Highway Safety	20.600	37,887,482	
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	12,989,711	
Total Highway Safety Cluster		50,877,193	
Research and Development Cluster			
Highway Planning and Construction	20.205	13,180,287	
National Motor Carrier Safety	20.218	160,287	
Formula Grants for Other than Urbanized Areas	20.509	93,010	
State Planning and Research	20.515	1,307,505	
Total Research and Development Cluster		14,741,089	
Total U.S. Department of Transportation		2,436,797,460	
Equal Employment Opportunity Commission			
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	1,326,700	
General Services Administration			
Donation of Federal Surplus Personal Property	39.003	2,868,859	**
National Aeronautics and Space Administration			
Other-National Aeronautics and Space Administration	43.999	14,375	
National Foundation on the Arts and the Humanities			
Promotion of the Arts-State and Regional Program	45.007	987,100	
State Library Program	45.310	15,760,808	
Total National Foundation on the Arts and Humanities		16,747,908	
Department of Veterans Affairs			
Grants to States for Construction of State Home Facilities	64.005	6,549,344	
Veterans State Domiciliary Care	64.014	9,083,113	
Veterans State Nursing Home Care	64.015	11,365,398	
Veterans State Hospital Care	64.016	83,337	
Veterans Housing-Guaranteed and Insured Loans	64.114	48,799,355	****
All-Volunteer Force Educational Assistance	64.124	93,801	
Other-U.S. Department of Veterans Affairs	64.999	466,825	
Total U.S. Department of Veteran's Affairs		76,441,173	
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	8,870,719	
State Indoor Radon Grants	66.032	120,779	
Water Pollution Control State and Interstate Program Support	66.419	5,058,470	
State Underground Water Source Protection	66.433	385,698	
Water Quality Management Planning	66.454	1,054,293	
National Estuary Program	66.456	230,491	
Capitalization Grants for Clean Water State Revolving Funds	66.458	70,123,537	
Nonpoint Source Implementation Grants	66.460	10,830,704	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Regional Wetland Program Development Grants	66.461	466,211
Water Quality Cooperative Agreements	66.463	594,384
Capitalization Grants for Drinking Water State Revolving Funds	66.468	93,567,339
Beach Monitoring and Notification Program Implementation Grants	66.472	530,830
Water Protection Grants to the States	66.474	122,471
Environmental Protection-Consolidated Research	66.500	276,096
Safe Drinking Water Research and Demonstration	66.506	2,439,759
Office of Research and Development Consolidated Research/Training	66.511	33,167
Surveys, Studies, Investigations and Special Purpose Grants	66.606	491,570
Environmental Information Exchange Network Grant Program and Related	66.608	11,286
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	2,254,757
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	116,194
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	480,697
Pollution Prevention Grants Program	66.708	81,503
Hazardous Waste Management State Program Support	66.801	7,436,643
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	845,976
State and Tribal Underground Storage Tanks Program	66.804	299,284
Leaking Underground Storage Tank Trust Fund Program	66.805	6,711,710
Solid Waste Management Assistance Grants	66.808	9,165
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	137,389
State and Tribal Response Program Grants	66.817	1,121,463
Total Excluding Clusters		214,702,585
Research and Development Cluster		
Regional Wetland Program Development Grants	66.461	130,654
Pollution Prevention Grants Program	66.708	109,430
Pesticide Environmental Stewardship-Regional Grants	66.714	27,649
Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach	66.716	21,099
Total Research and Development Cluster		288,832
Total U.S. Environmental Protection Agency		214,991,417
Office of State and Tribal Programs, Nuclear Regulatory Commission		
Radiation Control-Training Assistance and Advisory Counseling	77.001	87,906
Department of Energy		
State Energy Program	81.041	3,391,474
Weatherization Assistance for Low-Income Persons	81.042	6,015,657
Environmental Restoration	81.092	334,192
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	46,828
Other - U.S. Department of Energy	81.999	427,268
Total Department of Energy		10,215,419
Federal Emergency Management Agency		
Community Assistance Program-State Support Services Element (CAP-SSSE)	83.105	292,508
State Disaster Preparedness Grants	83.505	79,479
Flood Mitigation Assistance	83.536	470,347

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Hazard Mitigation Grant	83.548	52,580
Emergency Management Performance Grants	83.552	748,552
Pre-Disaster Mitigation	83.557	422,560
State and Local All Hazards Emergency Operations Planning	83.562	1,142,141
Citizen Corps	83.564	1,071,293
Other - Federal Emergency Management Agency	83.999	1,179
Total Federal Emergency Management Agency		4,280,639
Department of Education		
Adult Education-State Grant Program	84.002	108,602,142
Title I Grants to Local Educational Agencies	84.010	1,712,987,435
Migrant Education-State Grant Program	84.011	138,892,646
Title I Program for Neglected and Delinquent Children	84.013	4,884,969
Vocational Education-Basic Grants to States	84.048	135,127,232
Vocational Education-State Councils	84.053	347,100
Leveraging Educational Assistance Partnership	84.069	13,276,128
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	244,861,072
Rehabilitation Services-Service Projects	84.128	1,382,638
Independent Living-State Grants	84.169	1,873,182
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	2,744,158
Special Education-Grants for Infants and Families with Disabilities	84.181	52,067,594
Safe and Drug-Free Schools and Communities-National Programs	84.184	6,684,106
Byrd Honors Scholarships	84.185	5,054,750
Safe and Drug-Free Schools and Communities-State Grants	84.186	61,295,496
Supported Employment Services for Individuals with Severe Disabilities	84.187	4,013,619
Education for Homeless Children and Youth	84.196	8,689,777
Even Start-State Educational Agencies	84.213	34,005,462
Fund for the Improvement of Education	84.215	449,240
Assistive Technology	84.224	683,930
Rehabilitation Services Demonstration and Training Programs	84.235	28,500
Tech-Prep Education	84.243	11,740,423
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	539,713
Eisenhower Professional Development State Grants	84.281	8,144,222
Charter Schools	84.282	16,586,467
Twenty-First Century Community Learning Centers	84.287	87,887,645
State Grants for Innovative Programs	84.298	37,416,920
Education Technology State Grants	84.318	77,598,372
Special Education-State Personnel Development	84.323	2,111,772
Advanced Placement Program	84.330	1,551,217
Grants to States for Incarcerated Youth Offenders	84.331	1,964,774
Comprehensive School Reform Demonstration	84.332	66,394,292
Teacher Quality Enhancement Grants	84.336	1,659
Title I Accountability Grants	84.348	2,733,423
Transition to Teaching	84.350	263
School Renovation Grants	84.352	134,974
Reading First State Grants	84.357	158,552,833
Rural Education	84.358	1,421,127
Literacy Through School Libraries	84.364	69,075
English Language Acquisition Grants	84.365	157,846,262
Mathematics and Science Partnerships	84.366	12,196,633
Improving Teacher Quality State Grants	84.367	336,366,232

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Grants for State Assessments and Related Activities	84.369	57,768,000	
Total Excluding Clusters		3,576,977,474	
Student Financial Aid Cluster			
Federal Family Education Loans	84.032	24,965,036,404	***
Special Education Cluster			
Special Education - Grants to States	84.027	964,211,655	
Special Education - Preschool Grants	84.173	37,437,044	
Total Special Education Cluster		1,001,648,699	
Total U.S. Department of Education		29,543,662,577	
Election Assistance Commission			
Help America Vote Act Requirements Payments	90.401	169,677,955	
Department of Health and Human Services			
Public Health and Social Services Emergency Fund	93.003	11,597,522	
Special Programs for the Aging-Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	527,692	
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	93.042	1,655,047	
Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043	1,492,634	
Special Programs for the Aging - Title IV and Title II - Discretionary Projects	93.048	233,716	
National Family Caregiver Support	93.052	17,291,878	
Food and Drug Administration-Research	93.103	1,117,311	
Maternal and Child Health Federal Consolidated Programs	93.110	324,312	
Biological Response to Environmental Health Hazards	93.113	26,502	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	8,040,635	
Emergency Medical Services for Children	93.127	109,518	
Primary Care Services Resource Coordination and Development	93.130	249,463	
Injury Prevention and Control Research and State and Community Based Programs	93.136	4,051,954	
Projects for Assistance in Transition from Homelessness (PATH)	93.150	6,485,977	
Health Program for Toxic Substances and Disease Registry	93.161	687,903	
Grants to States for Loan Repayment Program	93.165	652,443	
Disabilities Prevention	93.184	325,675	
Consolidated Knowledge Development and Application (KD&A) Program	93.230	2,227,917	
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	131,612	
State Rural Hospital Flexibility Program	93.241	352,587	
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	1,014,566	
Universal Newborn Hearing Screening	93.251	122,964	
Rural Access to Emergency Devices Grant	93.259	179,081	
Immunization Grants	93.268	190,191,276	*
Substance Abuse and Mental Health Services - Access to Recovery	93.275	310,954	
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	86,597,476	^
Small Rural Hospital Improvement Grant Program	93.301	1,116,886	
Promoting Safe and Stable Families	93.556	64,792,491	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Temporary Assistance for Needy Families	93.558	3,287,344,893
Child Support Enforcement	93.563	466,358,441
Child Support Enforcement Research	93.564	25,498
Refugee and Entrant Assistance-State Administered Programs	93.566	24,497,821
Low-Income Home Energy Assistance	93.568	89,196,390
Community Services Block Grant	93.569	57,134,922
Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	93.571	552,245
Refugee and Entrant Assistance-Discretionary Grants	93.576	2,839,056
U.S. Repatriation	93.579	32,810
Refugee and Entrant Assistance-Targeted Assistance Grants	93.584	4,873,848
Empowerment Zones Program	93.585	758,577
State Court Improvement Program	93.586	1,259,895
Community-Based Child Abuse Prevention Grants	93.590	2,336,845
Welfare Reform Research, Evaluations and National Studies	93.595	106
Grants to States for Access and Visitation Programs	93.597	952,329
Chafee Education and Training Vouchers Program (ETV)	93.599	14,349,850
Head Start	93.600	254,754
Adoption Incentive Payments	93.603	753,895
Mentoring Children of Prisoners	93.616	44,076
Developmental Disabilities Basic Support and Advocacy Grants	93.630	6,550,000
Children's Justice Grants to States	93.643	1,950,558
Child Welfare Services-State Grants	93.645	31,193,235
Social Services Research and Demonstration	93.647	204,503
Adoption Opportunities	93.652	384,697
Foster Care-Title IV-E	93.658	1,309,966,783
Adoption Assistance	93.659	307,409,191
Social Services Block Grant	93.667	284,090,384
Child Abuse and Neglect State Grants	93.669	3,289,560
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	10,791,104
Chafee Foster Care Independence Program	93.674	22,203,985
State Children's Insurance Program	93.767	713,302,558
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	83,932
Medicare-Supplementary Medical Insurance	93.774	3,645,107
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	2,334,929
Grants to States for Operation of Offices of Rural Health	93.913	195,814
HIV Care Formula Grants	93.917	122,731,768
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	714,842
HIV Prevention Activities - Health Department Based	93.940	11,286,927
HIV Demonstration, Research, Public and Professional Education Projects	93.941	943,745
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	595,340
Human Immunodeficiency Virus (HIV)/Acquired Immuno-deficiency Virus Syndrome (AIDS) Surveillance	93.944	3,245,219
Tuberculosis Demonstration, Research, Public and Professional Education	93.947	231,229
Trauma Care Systems Planning and Development	93.952	35,532
Block Grants for Community Mental Health Services	93.958	54,508,860
Block Grants for Prevention and Treatment of Substance Abuse	93.959	252,728,838

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	6,864,791
Preventive Health Services- Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978	1,585,710
Mental Health Disaster Assistance and Emergency Mental Health	93.982	2,715,713
Health Programs for Refugees	93.987	410,791
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	1,768,678
Preventive Health and Health Services Block Grant	93.991	9,260,988
Maternal and Child Health Services Block Grant to the States	93.994	40,826,785
Other-Department of Health and Human Services	93.999	13,066,765
Total Excluding Clusters		7,576,593,104
Aging Cluster		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	34,978,214
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	51,050,564
Nutrition Services Incentive Program	93.053	13,151,469
Total Aging Cluster		99,180,247
Child Care Cluster:		
Child Care and Development Block Grant	93.575	572,432,961
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	235,541,435
Total Child Care Cluster		807,974,396
Medicaid Cluster		
State Medicaid Fraud Control Units	93.775	18,250,877
State Survey and Certification of Health Care Providers and Suppliers	93.777	28,729,236
Medical Assistance Program	93.778	18,292,201,374
Total Medicaid Cluster		18,339,181,487
Research and Development Cluster		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	404,203
Consolidated Knowledge Development and Application (KD&A) Program	93.230	101,980
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	126,528
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	176,398
Total Research and Development Cluster		809,109
Total U.S. Department of Health and Human Services		26,823,738,343
Corporation for National and Community Service		
CalServ America	94.001	80,923
State Commissions	94.003	1,455,794
Learn and Serve America-School and Community Based Programs	94.004	2,252,080
AmeriCorps	94.006	20,892,473
Total Excluding Clusters		24,681,270

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Foster Grandparent/Senior Companion Cluster		
Foster Grandparent Program	94.011	1,537,847
Total U.S. Corporation for National and Community Service		26,219,117
Social Security Administration		
Disability Insurance/SSI Cluster		
Social Security-Disability Insurance	96.001	190,623,811
Department of Homeland Security		
State Domestic Preparedness Equipment Support Program	97.004	12,704,453
Urban Areas Security Initiative	97.008	16,897,334
State Access to the Oil Spill Liability Trust Fund	97.013	25,000
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	1,221,397
Crisis Counseling	97.032	139,950
Disaster Unemployment Assistance	97.034	205,187
Public Assistance Grants	97.036	399,020,072
Hazard Mitigation Grant	97.039	65,398,374
Emergency Management Performance Grants	97.042	9,578,581
Cooperating Technical Partners	97.045	230,473
Fire Management Assistance Grant	97.046	28,093,440
Map Modernization Management Support	97.070	20,338
Total Department of Homeland Security		533,534,599
Office of National Drug Control Policy		
High Intensity Drug Trafficking Area	See Note 4	4,767,940
Miscellaneous Grants and Contracts		
Shared Revenue-Flood Control Lands	99.002	108,975
Shared Revenue-Grazing Land	99.004	115,126
U.S. Department of the Interior-Fire Prevention/Suppression Agreement	99.014	634,000
U.S. Department of the Interior-Fire Prevention/Suppression Agreement	99.015	238,766
U.S. Department of Agriculture and Various Other U.S. Department-Fire Prevention/Suppression	99.016	52,118,030
Miscellaneous Federal Receipts	99.099	455,702
Miscellaneous Federal Receipts	99.999	2,002,537
Total Miscellaneous		55,673,136
Total Federal Awards Received		71,897,824,318

* Amount includes value of commodities or food stamps.
** Amount includes donated property.
*** Amount includes loans in effect as of June 30, 2005.
**** Amount includes insurance in effect as of June 30, 2005.
^ Amount consists of several programs, including $77,111,164 for the Public Health Preparedness and Response for Bioterrorism program and $8,132,207 for the Breast and Cervical Cancer Control program.

NOTES TO THE SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 2005

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, 2005. This schedule does not include expenditures of federal grants received by the University of California, the California State University, and the California Housing Finance Agency. The expenditures of the University of California, California State University, and California Housing Finance Agency are audited by other independent auditors in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

The $71,897,824,318 in total federal assistance consists of the following:

Cash assistance received	$44,248,872,350
Noncash federal awards	2,577,857,859
Loans and/or loan guarantees outstanding	25,022,294,754
Insurance in-force	48,799,355
Total	$71,897,824,318

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 non-cash federal assistance received, loans and loan guarantees outstanding, and insurance in force for the year ended June 30, 2005.

3. UNEMPLOYMENT INSURANCE

Of the $5,274,682,163 in total unemployment insurance funds (federal catalog number 17.225) received by the Employment Development Department during fiscal year 2004-05, $4,905,266,962 was State Unemployment Insurance funds that were drawn down from the Unemployment Trust Fund in the U.S. Treasury.

4. OTHER

The California Department of Justice (DOJ) receives cash reimbursements from local law enforcement agencies under the Office of National Drug Control Policy's High Intensity Drug Trafficking Area program. During the period July 1, 2004 through June 30, 2005, the DOJ received the following cash reimbursements from pass-through entities:

Federal Agency/Program	Pass-through Entity	Grant Number	Amount
Office of National Drug Control Policy High Intensity Drug Trafficking Area			
	LA Clear/LA Police Chief's Association/City of Hawthorne	I4PLAP534	$ 907,779
	NC HIDTA/LA Police Chief's Association/San Mateo County	I4PLAP534	125,930
	CV HIDTA/LA Police Chief's Association/Stanislaus County	I4PLAP534	89,102
	INCH/LA Police Chief's Association/Riverside County	I4PLAP534	57,997
	INCH/LA Police Chief's Association/Riverside County	I5PLAP534	5,844
	NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD	I3PNVP501Z	136,057
	CA Border Alliance Group/ City of San Diego	I2PSCP575	1,367
	CA Border Alliance Group/ City of San Diego	I3PSCP575	151,214
	CA Border Alliance Group/ City of San Diego	I4PSCP575	1,650,508
	CA Border Alliance Group/ City of San Diego	I5PSCP575	285,870
	Northwest HIDTA/Washington State	I3PNWP505	7,750
	Northwest HIDTA/Washington State	I4PNWP505	38,750
	Clallaum Co Sheriff's Office	2001CKWX0177	25,497
	Clallaum Co Sheriff's Office	2004CKWX0034	22,496
	Criminal Information Sharing Alliance	DCA1000310001	1,140,780
	Institute of Intergovernmental Research	2003RSCX1002	120,999
		Total	$4,767,940

The State was also loaned Federal Excess Personal Property (FEPP) from the U.S. Forest Service during the period July 1, 2004 to June 30, 2005. According to the California Department of Forestry and Fire Protection, the amount loaned from July 1, 2004 to June 30, 2005, was $6,199,449. 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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number:	**2004-12-1**
Federal Program:	All Programs
State Administering Department:	Department of Finance
Fiscal Year Initially Reported:	1995-96
Audit Finding:	Reporting. Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program.
Status of Corrective Action:	Remains uncorrected. The State's accounting system will require substantial modification to comply with federal and State requirements. Given the State's current limited resources, the Department of Finance has no plans at this time to enhance the State's accounting system or to implement a new system.[1]

Reference Number:	**2004-3-12**
Federal Program:	10.568
State Administering Department:	Department of Social Services
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Cash Management. The Department of Social Services did not always limit cash transfers of federal funds to the minimum amounts needed for the Emergency Food Assistance Program.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-13-2**
Federal Program:	10.558
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2002-03

Audit Finding:	Subrecipient Monitoring. The Department of Education did not adequately fulfill its subrecipient monitoring responsibilities for the food program.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-13-7**
Federal Program:	10.557
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. Health Services did not always promptly receive all audit reports from its non-profit subrecipients.
Status of Corrective Action:	Remains uncorrected/Agree with finding. The WIC Branch has recently undergone significant restructuring in the areas of local agency support and fiscal management. This restructuring will allow for more complete and timely audit tracking and responses; however, given that the restructure is new, the processes have not been developed. We expect to be able to develop and implement the new process so that it is fully operational in the next six months.

Reference Number:	**2004-13-10**
Federal Program:	10.557
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Subrecipient Monitoring. In fiscal year 2002-03, it was reported that the Department of Health Services did not comply with its internal policy requiring it to issue letters of findings to the local agencies within 60 days of the exit conferences. We recommended that the Health Services comply with its internal policy; we also recommended that if Health Services believes this deadline is too restrictive, it should consider revising its internal policy. However, rather than revising the policy and establishing a more

	reasonable deadline, Health Services eliminated the 60-day deadline from its internal policies. Based on our review, we found delays in the Health Services' notification process. As a result, Health Services cannot always ensure that its subrecipients correct deficiencies promptly.
Status of Corrective Action:	Remains uncorrected/Disagree with finding. DHS continues to disagree with this finding; however, in the past year, procedures have been changed and a much smaller percentage of Program Evaluation letter of findings are issued to local agencies past 90 days from the exit conference. Remains uncorrected/Agree with finding. State staff will be trained to contact each local agency at least two weeks before a corrective action plan is due to remind each local agency to submit the corrective action plan in a timely manner. This procedure will be added to the State staff procedure training manual and discussed at staff meetings to assure consistency.[2]

Reference Number:	**2004-13-15**
Federal Program:	10.551, 10.561
State Administering Department:	Department of Social Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. Social Services is not fulfilling all its monitoring responsibilities for the Food Stamps programs. For federal fiscal year 2003-04, although Social Services performed the required annual program reviews of seven large counties, it did not conduct any of the claims management reviews and two of the civil rights reviews required for those counties. Because it is not conducting annual reviews of the large project areas as required by the federal regulations, Social Services has less assurance that subrecipients are complying with applicable laws and regulations.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-13-12**
Federal Program:	14.239
State Administering Department:	Housing and Community Development
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. Housing and Community Development lacks an adequate system to ensure that it promptly receives all audit reports from non-profit subrecipients required to submit them. It also lacks an adequate system to ensure that it issues management decisions on reported findings.
Status of Corrective Action:	Fully Corrected.

Reference Number:	**2004-1-4**
Federal Program:	16.575
State Administering Department:	Office of Emergency Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Activities Allowed, Allowable Costs, Cash Management, Eligibility, Period of Availability, Reporting. Office of Emergency Services (OES) cannot ensure that all fiscal year 2003-04 expenditure and revenue transactions applicable to the Crime Victim Assistance program grants awarded for federal fiscal years 2000, 2001, and 2002 were recorded in the accounting records. As a result, OES cannot determine whether the federal financial status reports submitted for these grants are accurate. Moreover, because of the uncertainty of the completeness of OES's accounting records, we could not be sure that we subjected all transactions related to these grants to testing. Consequently, we are unable to conclude that OES, or the former Office of Criminal Justice Planning (OCJP), which administered the grants until it closed in December 2003, complied with federal laws, regulations, and requirements for activities allowed, allowable costs, cash management, eligibility, period of availability, and reporting.

Status of Corrective Action:	Remains uncorrected/Agree with finding. This statement is accurate and the financial condition of the previous OCJP (Agency 8100) remains unchanged as of this time. A lack of adequate resources, specifically additional staff to meet the needs of the additional workloads presented by the inheritance of OCJP, is now being addressed by OES executive management and it is our hope that all necessary positions will be filled by January 31, 2006. With the additional positions now authorized, OES accounting staff can begin the reconstruction of the OCJP records, including but not limited to those items identified in the Office of State Audits and Evaluations' reconstruction report. It is anticipated that this project will require three to four full-time staff three to four months to complete.[3]

Reference Number:	**2004-13-9**
Federal Program:	16.575, 16.007, 97.036 (formerly 83.544), 97.039 (formerly 83.548)
State Administering Department:	Office of Emergency Services
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Subrecipient Monitoring. The Office of Emergency Services (OES) did not adequately monitor subrecipients of funds for the Crime Victim Assistance, State Homeland Security Grant, Public Assistance Grants, and Hazard Mitigation Grant programs.
Status of Corrective Action:	Part 1: OES does not perform all pass-through agency requirements of OMB Circular A-133. Remains uncorrected/Agree with finding. OES agrees that it did not fully comply with all pass-through agency requirements included in OMB Circular A-133. OES did not fully comply because it lacked adequate staffing levels to perform all required work. When OES has adequate staff to perform all required work, OES will fully comply with all OMB Circular A-133 subrecipient monitoring requirements. The State Office of Homeland Security (OHS) is now responsible for all pass-through agency responsibilities related to homeland security grants.

Following is OHS' description of their current process for OMB Circular A-133 subrecipient monitoring:

At this time, audit reports are being sent directly to the Grants Monitoring Unit (GMU) of OHS. Prior to an on-site monitoring visit, a Program Monitor (PM) is required to determine if any audits have come in, applicable to the sub-grantee being monitored; and if necessary, incorporate in the monitoring field document any findings noted by the auditor. It should also be noted that this process of a pre-visit desk review of audit reports is an on-going day-to-day duty assignment of the GMU. During a monitoring visit, it is incumbent upon the PM to ensure that any audit findings have been addressed. If needed, the PM will address the findings in the required Corrective Action Plan. Prior to closing out an OHS grant, the sub-recipient is required to seek verification by the GMU of compliance with any corrective actions noted.

Part 2: OES does not adequately follow up on the results of site visits it conducts.

Partially corrected. Immediately after the Victim Services Branch manager received notification from the Bureau of State Audits (BSA) of the finding in November 2004, the following corrective action was taken:

First, although the former Office of Criminal Justice Planning (OCJP) had a Grants Management Information System (GMIS) that tracked the date of site visits, it did not track satisfactory resolution of deficiencies that were identified during site visits. Adding this element to GMIS would have been an easy fix; however, after OCJP was abolished effective January 1, 2004 and became a division under OES, GMIS was no longer maintained. As a result, the Branch developed a new tracking process through an Excel spreadsheet as a management information tool. Staff were to enter and update site visit information for fiscal year 2004-05 for each grant recipient on the spreadsheet. Once the BSA finding regarding site visits surfaced, the following items were added to the Excel spreadsheet for tracking purposes: Last Site Visit, Form Completed, Corrective Action Plan Status, Scheduled Visits, and Last Monitoring.

Second, managers developed or revised independent methods of tracking and managing information within their Section regarding site visits, some of which were more detailed than the Branch spreadsheet. For instance, one Section developed a form entitled, "Site Visit Report Check List" which tracks the following information: grantee, site visit date, letter sent to grantee, report given to section chief, correction action plan due date, corrective action received approved, and reminder contact. It should be noted that the Victim Services Branch intends to consolidate the independent methods each Section is using into one working document and process for consistency purposes, and staff from each Section are coordinating this effort.

Third, as a consequence of Senate Bill 914 (added by Stats. 2004, Ch. 840), and codified as Penal Code Sections 13823.15, 13823.16, and 13837.1, Staff Instructions were developed for Domestic Violence Assistance and Rape Crisis Programs regarding site visits. The instructions include all phases of the visit, from preparing to summarizing corrective actions required. The Staff Instructions also provide information on follow-up and satisfactory completion of corrective action in which within 30 days of satisfactory completion, a letter is sent to the grant recipient indicating the project is in full compliance with all program requirements, and a copy is sent to the OES Grant File. Additionally, the Staff Instructions provide a format for the corrective action letter which includes three components for each finding, i.e. Finding, Citation, and Corrective Action.

These staff instructions and accompanying site visit forms are in draft format, but have been reviewed by OES Legal Counsel. The Domestic Violence and Sexual Assault Sections have pilot tested them during site visits and the forms are being slightly revised. It is anticipated that final versions will be approved by March 2006. Should the forms be successful, it is anticipated they may be used for all of the programs in the Branch in the future.

Finally, despite the tools mentioned above, OES continues to have problems with adequately following up and documenting the results of site visits conducted. Although mechanisms are in place, the Victim Services Branch was staffed at approximately 70 percent capacity due to first a

	hiring freeze, and then a pause in hiring. Since the Branch was short staffed and had varying competing priorities, proper documentation and follow up with respect to site visits was sometimes neglected. This issue is currently being resolved as the Victim Services Branch is in the process of hiring staff, although staff retention has also become a new concern.[4]
Reference Number:	**2004-2-1**
Federal Program:	17.207, 17.801, 17.804, 17.225, 17.258, 17.259, 17.260
State Administering Department:	Employment Development Department
Fiscal Year Initially Reported:	1998-99
Audit Finding:	Allowable Costs and Cost Principles. EDD allocated six of ten operating expense and equipment (OE&E) transactions we reviewed, even though it had not obtained federal approval to do so as part of its indirect cost rate proposal. According to EDD, it used the allocation codes to distribute OE&E costs that it could not specifically identify with a particular federal program. Consequently, EDD should have included and distributed these allocated costs under its indirect cost rate proposal.
Status of Corrective Action:	Partially corrected. The EDD submitted the Indirect Cost Rate Proposal (ICRP) for the period beginning on July 1, 2005 to the Department of Labor, Office of Cost Determination (OCD) on June 30, 2005. The ICRP describes all cost pools that the EDD began using starting July 1, 2005. The use of cost pools will eliminate the need for 151 allocation codes. The ICRP explains how costs will be distributed to programs in accordance with benefits received per Office of Management and Budget Circular A-87. The EDD has also recently met with the OCD Cost Negotiator. The OCD Cost Negotiator agreed with the basis for most of the EDD's cost pool allocations, and only identified two areas of concern. The EDD will be revising the ICRP submission and will be providing additional data to the OCD by December 30, 2005.[5]

Reference Number:	**2004-9-1**
Federal Program:	17.207, 17.801, 17.804, 17.225, 17.258, 17.259, 17.260
State Administering Department:	Employment Development Department
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Procurement. EDD does not appropriately review invoices for purchases of airline tickets.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-9-2**
Federal Program:	20.205
State Administering Department:	Department of Transportation
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Suspension and Debarment. Although the California Department of Transportation required its private contractors to submit suspension and debarment certifications, it did not require its subrecipients (local governments) to submit such certifications.
Status of Corrective Action:	Fully corrected.[6]

Reference Number:	**2004-9-3**
Federal Program:	20.505
State Administering Department:	California Department of Transportation
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Suspension and Debarment. Although the California Department of Transportation states in its guidance to subrecipients of the planning grants program that subrecipients must submit suspension and debarment certifications, Caltrans did not always have suspension and debarment certifications from its subrecipients.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-1-3**
Federal Program:	39.011
State Administering Department:	Office of the Secretary of State
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Activities Allowed, Allowable Costs, Procurement, and Suspension and Debarment. The Office of the Secretary of State (Office) overrode and, in many cases, lacked adequate controls to ensure that it appropriately administered HAVA funds designated to improve the administration of federal elections (discretionary funds). It was found that the Office lacked support for the personal service costs it charged to HAVA. In addition, its poor oversight of consultants and consultant contracts also resulted in questionable costs. Moreover, the Office used questionable practices to procure goods and services funded with discretionary funds. Finally, the Office did not obtain the required suspension and debarment certifications from vendors with procurement contracts of $100,000 or more that were paid with discretionary funds from subrecipients who received HAVA funds to replace voting machines.
Status of Corrective Action:	Ensure time charged is supported by appropriate documentation: Fully corrected. Follow Control Procedures: Partially corrected. Comprehensive procedures were developed for contracting activities. Included in these processes is a more efficient contract review process, which requires every contract to include a detailed scope of work, specific deliverables, and performance measures. Additional training for new and existing staff in this new process will take place prior to June 30, 2006. Require contract managers monitor for completion of contract services and work products prior to approving invoices for payment: Fully corrected

	Review invoices to assure that charges to be paid with HAVA funds are reasonable and allowable, and conform to the terms of the contract: Fully corrected. Follow competitive bidding requirements: Fully corrected. Follow General Services' policies when using CMAS for contracting needs: Fully corrected. Comply with state policy for procuring commodities: Fully corrected. Ensure subrecipients and applicable vendors are not suspended or debarred from doing business with federal government: Fully corrected.[7]
Reference Number:	**2004-3-1**
Federal Program:	84.357
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Cash Management. The Department of Education does not have adequate procedures to ensure that Reading First subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal funds.
Status of Correction Action:	Fully corrected.
Reference Number:	**2004-3-2**
Federal Program:	84.002
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Cash Management. The Department of Education does not have adequate procedures to ensure that Adult Education program subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal funds.

Status of Corrective Action:	Partially corrected. Education implemented a process requiring agencies to submit mid-year and year-end expenditure reports. Education releases its first payment of 50 percent to the agencies, and later requests the agencies to submit a mid-year expenditure report. If on the mid-year expenditure report, the agency expends more than 80 percent, it will receive a second payment of 25 percent, otherwise it will receive 12.5 percent. Education will include on the mid-year report a certification by the agency that they have not received $100 in interest.

Reference Number:	**2004-3-3**
Federal Program:	84.010
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Cash Management. The Department of Education does not have adequate procedures to ensure that Title I, Part A subrecipients, which are all Local Educational Agencies (LEA), demonstrate the ability to minimize the time between receipt and disbursement of federal funds.
Status of Corrective Action:	Partially corrected. Education continues to allocate funds proportionate to the unpaid months that have elapsed prior to and including the month the current apportionment, based on the principle that LEAs incur federal expenditures fairly constantly through the year. Education included language in apportionment letters to notify LEAs of a potential delay in funding if significant carry over balances existed. Furthermore, the Title I program office monitors the percentage of carryover balances as submitted on Part I of the Consolidated Application. When an LEA is over their 15 percent carry over limit, a waiver is requested from the program office. Program staff review/approve and notify fiscal staff if funds should be withheld. Education refined its process to ensure the State Board approves all LEA plans prior to the disbursement of federal funds. A file of the Consolidated Application Title I participants is compared to a listing of active schools to ensure

	those applying to participate in Title I funds are operating. When an LEA plan is received, it is reviewed to ensure that all the information is present, then it is forwarded to the State Board for approval. The calculations of the entitlement are completed, but no funds are released into the apportionment until a State Board approved LEA plan is verified against the Consolidated Application and active schools listing. Education also verifies that there is a State Board approved LEA plan before apportionments are released.[8]

Reference Number:	**2004-3-4**
Federal Program:	84.243
State Administering Department:	California Community Colleges, Chancellor's Office
Fiscal Year Initially Reported:	1997-98
Audit Finding:	Cash Management. The California Community Colleges, Chancellor's Office (Chancellor's Office) does not have adequate procedures to ensure that Tech-Prep subrecipients minimize the time between receipt and disbursement of federal funds.
Status of Corrective Action:	Partially corrected. Based on the recommendations and findings, the Chancellor's Office continues to work to align cash disbursements with expenditure levels. To avoid excess cash draw downs of the Perkins Act funding, the Chancellor's Office analyzes prior year expenditures to determine the Advance Apportionment, and the current year quarterly expenditures to determine the First Principal Apportionment (P1), and the Second Principal Apportionment (P2). If justified, we are holding back more funds at Advance Apportionment to avoid excess cash. We will continue to monitor the situation throughout the year to determine whether the problem is fixed. Therefore, the status of the findings are partially corrected, with anticipated correction date of June 30, 2006.

Reference Number:	**2004-3-5**
Federal Program:	84.027, 84.173
State Administering Department:	Department of Education

Fiscal Year Initially Reported:	2001-02
Audit Finding:	Cash Management. The Department of Education does not have adequate procedures to ensure that program subrecipients demonstrate the ability to minimize the time between receipt and use of federal funds.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-3-6**
Federal Program:	84.318
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Cash Management. The Department of Education does not have adequate procedures to ensure that Education Technology subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal program funds.
Status of Corrective Action:	Remains uncorrected/Agree with finding. With almost 1,000 potential Education Technology subrecipients and over 500 grant awards under $10,000, Education continues to explore methods for an optimal monitoring approach. However, a reimbursement system places an undue burden on the LEAs and Education, as significant additional paperwork processing would be required for amounts that are needed upfront to purchase technology. We continue to monitor and bill LEAs at the end of the grant period through the end of period expenditure review process.[9]

Reference Number:	**2004-3-7**
Federal Program:	84.367
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Cash Management. The Department of Education does not have adequate procedures to ensure that

	subrecipients of the Improving Teacher Quality program demonstrate the ability to minimize the time between receipt and disbursement of federal funds.
Status of Corrective Action:	Fully corrected.[10]

Reference Number:	**2004-3-8**
Federal Program:	84.365
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Cash Management. The Department of Education does not have adequate procedures to ensure that the English Language Acquisition Grant subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal funds.
Status of Corrective Action:	Fully corrected.[11]

Reference Number:	**2004-3-9**
Federal Program:	84.298
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Cash Management. The Department of Education does not have adequate procedures to ensure that subrecipients of the Innovative Education program minimize the time between receipt and disbursement of federal funds.
Status of Corrective Action:	Partially corrected. Education implemented revisions to the Consolidated Application to capture LEA expenditure data. The fiscal and program offices are working together to establish a procedure to use the expenditure data prior to releasing subsequent funds.[12]

Reference Number:	**2004-3-11**
Federal Program:	84.048
State Administering Department:	California Community Colleges, Chancellor's Office
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Cash Management. The Chancellor's Office did not always withhold a subrecipient's last payment until the Chancellor's Office received and reviewed the subrecipient's final expenditure report for the fiscal year.
Status of Corrective Action:	Partially corrected. Based on the recommendations and findings, the Chancellor's Office has worked to ensure approval of final expenditure reports before release of final payments. We also discerned between: (1) those reports which are approvable for payment purposes, and (2) those reports we hold open for resolution of immaterial, clerical issues, such as inconsistencies in tallies of activities. This year, we also have a later date for certification of apportionment recalculation, which should further lessen the opportunities for this type of audit exception. We believe the finding is fully corrected as of December 9, 2005, the date of recalculation of fiscal year 2004-05 funding.

Reference Number:	**2004-5-1**
Federal Program:	84.126
State Administering Department:	Department of Rehabilitation
Fiscal Year Initially Reported:	1996-97
Audit Finding:	Eligibility. The Department of Rehabilitation does not always determine applicant eligibility for Vocational Rehabilitation services within the required period.
Status of Corrective Action:	Partially corrected. The Department agrees with this finding, and continues its efforts to improve in making timely eligibility determinations through field staff performance management. The overall percentage of overdue eligibility determinations has continued to decrease statewide. A significant and steady decline

	over time indicates that corrective actions taken to date have been effective in increasing compliance in this area. EPS – Employment Preparation Services Centralized Services has implemented a pilot case review project designed to provide management with information and resources to further support making timely eligibility determinations, as well as other crucial case management and recording requirements. BFS – Given that the Department's most current overdue eligibility data indicates a relatively high number of overdue eligibility determinations made in the Specialized Services Blind Field Service Division, a targeted corrective action plan has been developed by the Specialized Services Division Deputy Director.[13]
Reference Number:	**2004-7-1**
Federal Program:	84.298
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Earmarking. The Department of Education does not have adequate procedures to ensure that it meets the Innovative Education program earmarking requirements. Thus, it cannot ensure that it spends federal funds in compliance with federal regulations.
Status of Corrective Action:	Fully corrected.
Reference Number:	**2004-7-2**
Federal Program:	84.010, 84.048, 84.298, 84.365, 84.367
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Level of Effort – Supplement Not Supplant . The Department of Education does not have a system in place for monitoring the State's compliance with the requirement that it use revenues from certain federal

	grants to supplement, rather than supplant, existing funds for grant-related activities.
Status of Corrective Action:	Partially corrected. Education program offices for Title I, Title III, and Vocational Education have determined the specific supplement requirements for its particular program, and worked with fiscal staff to track and monitor state and local expenditures and state appropriations, as necessary, for compliance with the requirements. By December 2005, Education will complete the process for the Title II and Title V programs. Furthermore, for Title III, Education included in its Categorical Program Monitoring review instrument, a supplement not supplant section. Education educated field monitoring staff in its use, and now it is an element of active on-site review.[14]

Reference Number:	**2004-7-3**
Federal Program:	84.027
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Level of Effort – Maintenance of Effort . The Department of Education does not have a system in place to demonstrate that the State maintains funding for Special Education and related services at a level that is at least equal to the funding for the prior year.
Status of Corrective Action:	Fully corrected.[15]

Reference Number:	**2004-9-4**
Federal Program:	84.126
State Administering Department:	Department of Rehabilitation
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Suspension and Debarment. The Department of Rehabilitation did not obtain the required suspension and debarment certification from three of the four contractors we reviewed that had amendments to

	existing contracts or new contracts initiated during fiscal year 2003-04.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-13-3**
Federal Program:	84.048, 84.318
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. The Department of Education did not adequately fulfill its subrecipient monitoring responsibilities for Vocational Education and Education Technology.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-13-4**
Federal Program:	84.010
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Subrecipient Monitoring. The Department of Education has not monitored whether LEAs receiving Title I, Part A funds have complied with the requirement to provide school services that are at least comparable to services provided by schools not receiving these federal funds.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-13-5**
Federal Program:	84.027, 84.173
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. Education does not monitor the activities of its subrecipients awarded funds from

	the Special Education-Grants to States program and the Special Education-Preschool Grants program in accordance with grant award eligibility documents.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-14-3**
Federal Program:	84.032
State Administering Department:	California Student Aid Commission
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Special Tests and Provisions. The Commission's auxiliary organization administers the loan program. However, the auxiliary organization has not developed adequate internal controls over its information systems to provide reasonable assurance that it keeps current, complete, and accurate records of each loan.
Status of Corrective Action:	Comprehensive Security Risk Assessment and Entity-wide Security Program Plan. Partially corrected. An external consulting firm was contracted to perform a comprehensive information security risk assessment. The final report was issued on June 16, 2005. Based on the information security risk assessment, the Commission and the auxiliary are in the process of developing an entity-wide security program plan, which will describe the organization's security program and the related policies and procedures. The plan is expected to be completed by the end of the auxiliary's fiscal year, which is September 30, 2006. Information Security Officer. Fully corrected. Computer Room Monitoring. Fully corrected. Removal of Employee Electronic Access. Fully corrected. Segregation of Duties. Fully corrected. Preventative Controls. Fully corrected. Data and Table Maintenance. The auxiliary performed the following activities regarding data

maintenance during the State fiscal year ended June 30, 2005:

1. Inventory the key data maintenance changes.
2. Determine the cause(s) and criticality of such changes.
3. Determine the volume of such changes and associated risk(s).

The auxiliary felt it was necessary to perform these activities before any additional controls over data maintenance could be evaluated and/or implemented. The auxiliary is in the process of implementing a reduction to the number of transactions performed in data maintenance. This action, along with the previous reduction in the number of users, significantly reduces the risks in this area.

Additionally, update access to table maintenance screens was modified, effective June 22, 2005, to restrict a user's access to only those tables where there is a business need.

Operating Agreement. The Commission's operating agreement with the auxiliary organization has not been amended, but was extended for one more year. The Single Audit recommendation will be reviewed for inclusion in the next revision of the operating agreement, which is expected to occur prior to September 30, 2006, the auxiliary's federal fiscal year end.[16]

Reference Number:	**2004-14-4**
Federal Program:	84.011
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Special Tests and Provisions. The Department of Education did not take into account all the required information when it awarded sub-grants to LEAs for Migrant Education.
Status of Corrective Action:	Partially corrected. Education developed a revised sub-grant formula process that includes the following criteria:

1. Counts of eligible migrant students.
2. Counts of eligible migrant students who moved within one year.
3. Counts of eligible migrant students ages 19 – 21.
4. Academic need.
5. Priority for services.
6. Availability of other state and federal funds.

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Each of these criteria is in place for the sub-grant funding process, with the exception of the priority for services. This factor requires extracting and matching data from two separate databases (Migrant Student Information System (MSIN) and CDE-STAR) to determine the counts of priority for service students for each grantee. Education is addressing privacy and other legal requirements before making student level state assessment data available to the MSIN.

If the priority for services data access issues are resolved, Education should implement the revised sub-grant formula process beginning with fiscal year 2006-07.[17]

Reference Number:	**2004-1-1**
Federal Program:	93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Activities Allowed. The Department of Health Services (Department) applied too broadly a modification to its claims-processing system. As a result, since April 2004, the Department has been inappropriately paying Medicaid claims for services provided to certain children under its Medical Therapy Program (MTP) without attempting to bill other health coverage first.
Status of Corrective Action:	Remains uncorrected/Disagree with finding. On issues similar to this, the federal Centers for Medicare and Medicaid Services (CMS) has advised the Department that that agency would not review a waiver request from the State because of workload considerations. It would not be productive to develop and submit a waiver request to CMS on this issue as that agency would not consider it.

	Also, the Medi-Cal claims processing system currently does not have access or linkage to a database or data files that would enable the system to determine if a Medi-Cal beneficiary participates in Special Education or is otherwise covered by the federal Individuals with Disabilities Education Act (IDEA). Although the Department will discuss this with the Department of Education, based on prior experience, it is anticipated that any attempt to develop such a system would be extremely challenging due to dependence on data submission from multiple entities throughout the State and the legal requirement that schools keep their data confidential. This recommendation would be inconsistent with the two main goals of: (1) ensuring a child's right to a "free and appropriate" education, and (2) maximizing federal funding, as the cost to design, implement, and later support a "Special Education" tracking system that interfaces with CA-MMIS would undoubtedly exceed the anticipated federal financial participation.

Reference Number:	**2004-1-2**
Federal Program:	93.767
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Activities Allowed. The Department of Health Services does not always ensure that the provider information and rates it uses to calculate payments for certain services provided under the State Children's Insurance Program are current.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-1-5**
Federal Program:	93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2001-02

Audit Finding:	Activities Allowed. The Department of Health Services did not always ensure that services approved for Medicaid beneficiaries were medically necessary.
Status of Corrective Action:	Partially corrected. The providers identified with systemic findings in the sample of claims selected by the BSA were established as Field Audit Review cases in March 2005; however, completion of the reviews were delayed due to the 2005 Medi-Cal Payment Error Study (MPES) and two special joint projects with CMS/Medicare. The anticipated completion date for the reviews is November 2005. Audits and Investigations (A&I) is also continuing its focus on Adult Day Health Care Centers (ADHCs). In November, A&I will lead statewide onsite monitoring visits to several ADHCs. The visits will be made simultaneously and unannounced. The monitoring visits will include staff from the CDHS Licensing and Certification Division, State Controller's Office, and the Department of Aging. These ADHCs were identified as problematic during the 2005 MPES and the onsite visits will determine if the discrepancies are simply errors or indicators of possible fraud. In regards to the anticipated ADHC rate methodology change and proposed waiver, the authority to change ADHC rate methodology required legislative approval. Legislation that was introduced (AB 1258), giving CDHS the authority to amend the State Plan Amendment and change the rate methodology, was defeated.

Reference Number:	**2004-1-6**
Federal Program:	93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Activities Allowed. In our fiscal year 2002-03 audit, we reported that Health Services did not recover overpayments of Medicaid funds paid to health plans as capitation payments for beneficiaries who had died and thus were no longer eligible for Medicaid.
Status of Corrective Action:	Fully corrected.[18]

Reference Number:	**2004-3-10**
Federal Program:	93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Cash Management. Our review of the refund portion of worksheets that Health Services submitted to Finance for Medicaid found that Health Services did not always accurately report the dates for 5 of 12 months during fiscal year 2003-04.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-5-2**
Federal Program:	93.044
State Administering Department:	Department of Aging
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Eligibility. The Department of Aging does not have procedures to ensure that case management providers are public or non-profit private agencies.
Status of Corrective Action:	Fully corrected.[19]

Reference Number:	**2004-5-3**
Federal Program:	93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Eligibility. Our review of three of the 33 small counties not subject to Medicaid eligibility quality control reviews found that Placer County did not always ensure that it re-determined Medicaid eligibility at least once every 12 months. Specifically, although the eligibility re-determination for the Medicaid recipient we tested was due by March 2004; as of October 2004, Placer County had not yet

	performed the re-determination—7 months beyond the due date.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-12-2**
Federal Program:	93.575, 93.596
Fiscal Year Initially Reported:	2003-04
State Administering Department:	Department of Education
Audit Finding:	Reporting. The Department of Education did not report accurate data in its ACF-696 for fiscal year 2000-01, which it submitted on October 29, 2003. Because its management failed to ensure the accuracy of the report, Education overstated the State's share of expenditures by more than $6 million.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-12-5**
Federal Program:	93.767
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Reporting. The Department of Health Services does not ensure that amounts reported on its quarterly CMS-21 report are correctly classified. Although the total amounts spent on the program reported by Health Services are accurate, we were unable to verify the accuracy of detailed expenditures reported by line item or category of service.
Status of Corrective Action:	Remains uncorrected/Agree with finding. Accounting staff has met with Payment Systems Division and EDS staff on resolving the differences between the two EDS reports. Problem Statement 1819 has been developed to identify the source of the problem. To date, the source of the problem has not yet been identified and PSD/EDS continue to work on the issue.[20]

Reference Number:	**2004-13-1**
Federal Program:	93.575, 93.596
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. Education does not adequately monitor its subrecipients of the child care cluster programs.
Status of Corrective Action:	Partially corrected. Necessary adjustments were made to the scheduling of reviews to ensure that all reviews were completed in a timely manner. The Error Rate Study mandated by the Legislature in fiscal year 2004-05 prevented the Education from completing all scheduled reviews during that fiscal year. The uncompleted reviews have been rescheduled for fiscal year 2005-06. At the end of fiscal year 2005-06, all reviews scheduled for both fiscal years will be completed.[21]

Reference Number:	**2004-13-6**
Federal Program:	93.044, 93.045, 93.053
State Administering Department:	Department of Aging
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Subrecipient Monitoring. Aging is not adequately fulfilling its responsibility to monitor the Area Agencies on Aging.
Status of Corrective Action:	Partially corrected. The Department has modified its monitoring policy for onsite assessments from Area Agencies on Aging (AAA). This policy has been approved by the U.S. Department of Health and Human Services, Administration on Aging. CDA's goal is to conduct onsite program, fiscal, and administrative assessments of AAAs at least once every four years as resources permit and onsite audits of AAAs once every three years. In addition, the Department has adopted a "risk based" approach to onsite assessments and audits and will more

	frequently conduct assessments and audits for these high risk agencies. During fiscal year 2004-05, the Department met this goal with the exception of one AAA.
Reference Number:	**2004-13-11**
Federal Program:	93.568, 93.569
State Administering Department:	Department of Community Services and Development
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Subrecipient Monitoring. The Department of Community Services and Development did not have an adequate system to ensure that it met the OMB Circular A-133 requirements it must follow when it awards federal funds to subrecipients. Further, Community Services did not ensure that 4 of 12 subrecipients with findings took appropriate and timely corrective action. Finally, Community Services could not provide sufficient evidence to support its decision to waive the repayment of approximately $350,000 in federal funds for one subrecipient's disallowed costs.
Status of Corrective Action:	Fully corrected.[22]
Reference Number:	**2004-13-13**
Federal Program:	93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. The Department of Health Services does not have a formal process to ensure that Medicaid subrecipients take appropriate corrective action to findings identified in OMB Circular A-133 audit reports.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-13-14**
Federal Program:	93.917
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Subrecipient Monitoring. We identified Health Services' site visit goals as a key component of its subrecipient monitoring process for the HIV Care Formula Grants program. However, Health Services is not performing site visits as frequently as its goals state.
Status of Corrective Action:	Case Management Program (CMP). Fully corrected. Care Services Program (CSP). Partially corrected. Due to staff attrition and the need to train new staff, CSP was not able to visit all 11 subrecipients by December 31, 2005. Two monitoring visits have been completed (as of November 2), with an additional four scheduled for November and December 2005. The remaining five subrecipients will be monitored with priority given to those subrecipients who: (1) have not had a recent DHS audit, (2) have not had a recent HRSA site visit (i.e., the Eligible Metropolitan Areas [EMAs]), and (3) have experienced problems in invoicing, data reporting, or programmatic duties. AIDS Drug Assistance Program (ADAP). Partially corrected. In light of escalating administrative responsibilities, ADAP did not establish a subrecipient monitoring goal for itself for fiscal year 2005-06. The program continues to prioritize its visits to those doing the most ADAP enrollment/eligibility recertification, and those who have not been visited in the past five years. ADAP is still considering using its eligibility data as indicators of possible eligibility screening irregularities, but to date staff has not evaluated which data elements may prove most indicative of potential problems. ADAP has indicated a need for increased staffing, largely to increase its level of subrecipient monitoring.

	Combined responses for CMP, CSP, and ADAP. The Branch looked at the possibility of consolidating site visits between programs, but to date has not determined that it is feasible to do so. Surprisingly, there are not as many "common" grantees between care and treatment programs as was expected.[23]

Reference Number:	**2004-14-1**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Special Tests and Provisions. In our review of 20 requests from other states for case status reviews, we found that for 13 requests, DCSS did not indicate the dates it received the requests; therefore, we were unable to determine whether DCSS responded within 5 days. For the remaining 7 requests, DCSS took more than the required 5 days to respond to 2 requests, taking 8 days for one request and 22 days for the second.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-14-2**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs
Fiscal Year Initially Reported:	2002-03
Audit Finding:	Special Tests and Provisions. The Department of Alcohol and Drug Programs did not ensure that independent peer reviews were conducted for at least 5 percent of the treatment providers receiving funds from the Block Grants for Prevention and Treatment for Substance Abuse program.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-14-5**
Federal Program:	93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	1997-98
Audit Finding:	Special Tests and Provisions. Our review of selected Medicaid providers revealed that the Department of Health Services did not always have the required agreements, disclosures, licenses, and certifications on file.
Status of Corrective Action:	Partially corrected. As part of the Department's re-enrollment plan, all Medi-Cal providers will be re-enrolled, as a continuous process, to verify and update their original enrollment information and to ensure compliance with current state and federal regulations. The Provider Enrollment Branch (PEB) has implemented procedures to more efficiently review and process re-enrollment applications based upon data driven targeting of established fraud indicators (consistent with the Malcolm Sparrow anti-fraud model). As part of this process, high-risk provider types will be identified, by PEB and Audits and Investigations (A&I), using an on-going risk assessment analysis and the annual Medi-Cal Payment Error Study (MPES), allowing PEB to prioritize the review of these providers re-enrollment. This will provide for the verification and update of the original provider enrollment information, ensuring compliance with current state and federal regulations. PEB will annually review current practices to identify and prioritize policies and procedures that can be updated and streamlined, facilitating the re-enrollment process.[24]

Reference Number:	**2004-9-5**
Federal Program:	97.036 (formerly 83.544)
State Administering Department:	Office of Emergency Services
Fiscal Year Initially Reported:	2003-04

Audit Finding:	Suspension and Debarment. Emergency Services did not require applicants to the Public Assistance Grants program to submit suspension and debarment certifications. By not requiring these certifications, Emergency Services risks allowing suspended or debarred parties to participate in the federal program.
Status of Corrective Action:	Fully corrected.

Reference Number:	**2004-12-3**
Federal Program:	97.036 (formerly 83.544)
State Administering Department:	Office of Emergency Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Reporting. Emergency Services reported incorrect financial information in its June 2004 quarterly progress report.
Status of Corrective Action:	Fully corrected.[25]

Reference Number:	**2004-12-4**
Federal Program:	97.036 (formerly 83.544), 97.039 (formerly 83.548)
State Administering Department:	Office of Emergency Services
Fiscal Year Initially Reported:	1999-2000
Audit Finding:	Reporting. Emergency Services' financial status reports do not always contain complete expenditure information.
Status of Corrective Action:	Remains uncorrected/Agree with finding. OES has continued to experience staffing shortages. Also, the current accounting system we are mandated to use for all fiscal transactions has limited functionality. Due to the age of many disaster grants (6 to 16 years), many records may not be available, or are incomplete. Further, there are hundreds of recipients and thousands of projects associated with these grants. Many state and federal fiscal years have passed and even after a labor intensive and cumbersome process, we would not be able to update current accounting records. Therefore, we

continue to negotiate with FEMA on an on-going basis regarding the appropriate reporting of grant expenditures, administrative allowances, and other pertinent information.[26]

Reference Number:	**2004-13-8**
Federal Program:	97.036 (formerly 83.544)
State Administering Department:	Office of Emergency Services
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. Emergency Services did not adequately monitor subrecipients of federal funds from the Public Assistance Grants program.
Status of Corrective Action:	Partially corrected. Specifically, the finding was that "…OES did not provide status information for all of the open large projects listed on the report." In response to last year's findings, OES Public Assistance (PA) provided an e-mail from Don Smith, FEMA PA Officer for DR 1008, Pasadena Long-Term Recovery Office. In his e-mail, Don explained why large project monitoring is not necessary for OES to perform for DR 1008 because FEMA is lead for DR 1008 and is doing the monitoring. Specifically, he stated that, "The Northridge Long-Term Recovery Office has developed and continues to use an internal database for maintaining the current status of all open projects. The database is continually updated with information gained through on-going interaction between FEMA, the Sub-grantees, and OES. Although the database is our (FEMA's) primary tool for maintaining project status, the Quarterly Report provided by OES serves a valuable purpose in that it allows us to verify our mutual understanding of the project status." In addition, OES has a signed agreement with FEMA regarding large project monitoring wherein FEMA agreed that due to the magnitude of DR 1008 and subsequent disasters prior to DR 1498, that OES PA will not be monitoring all large projects. Instead, large projects for these disasters are included in the OES Large Project Monitoring Program (LPMP) based upon a risk-based approach agreed upon by the FEMA Disaster Recovery Manager (DRM). As a result, OES only monitors those large projects that meet the LPMP criteria and these are the only

projects included in the LPMP spreadsheet that is included in the Quarterly Report (QR) to FEMA for disasters prior to DR 1498.

For DR 1498 and all subsequent disasters, all large projects are monitored by OES and the information is collected on a continuous basis by the OES PA staff assigned to these sub-grantees. Their supervisor is responsible for updating the project data of the QR containing the sub-grantees assigned to their staff. This information is compiled quarterly and included in the QR to FEMA.

Unfortunately, since the closure of the OES office in Pasadena in October of 2003, OES no longer has permanent PA staff in southern California. Therefore, the majority of OES PA HQ staff in Sacramento have been deployed to southern California since October 2003 to draft PWs, resolve eligibility issues with FEMA, and provide technical assistance to sub-grantees for DR 1498 (Southern California Firestorms), DR 1505 (San Simeon Earthquake), DR 1577 (Southern California Winter Storms) and DR 1585 (February Winter Storms). The two most recent disasters listed here constitute a significant new workload for OES PA with 498 new applicants, 3,978 initial PWs, 88 appeals (to date), other related correspondence, and Final Inspection Reports. Therefore, any missing project monitoring data this fiscal year is due to lack of PA staffing resources.

This is also the reason for the delay in implementing the Automated Quarterly Reporting System whereby sub-grantees for DR 1498 and all subsequent disasters will submit their own project status reports reducing the burden on OES staff. In September 2005, the OES Deputy Director of Response and Recovery approved the system developed by PA staff to automate the sub-grantee quarterly progress reporting process and authorized the PA program to deny funding for sub-grantees that do not submit their quarterly large project progress reports to OES in a timely manner. A pilot of this new process is to be implemented for DR 1505 in December 2005. Until this process is fully implemented, it is the responsibility of the PA supervisor to insure that this information is compiled and included in the QR to FEMA.

For disasters prior to DR 1498, the PA section is making every effort to collect the information needed from sub-grantees to complete the Quarterly Cost Projection Reports (QCPR) for all projects included in the LPMP. However, due to lack of staff, some PA supervisors are collecting the required information via e-mails and phone calls instead of completing a QCPR for each project. This information is then used to update the QR to FEMA. Please note that all PA QRs this fiscal year have been submitted to FEMA on time.

In addition, per the FEMA approved OES State Administrative Plan for Public Assistance (Plan), during the application closeout phase, all projects are subject to a final inspection including field reviews. OES employs a risk-based approach in the preparation of Final Inspection Reports, per an agreement between OES and FEMA Region IX, and conducts "Interim Final Inspections" upon request to expedite the closeout process. At the time of application closeout, OES makes a claim to the FEMA Regional Director for final reimbursement of eligible costs for each large project. In submitting such claims, OES will clarify: (1) reported costs have been incurred in the performance of eligible work, (2) all approved work has been completed, (3) all projects are in compliance with the FEMA-State Agreement, and (4) all payments for that project have been made.

The Plan has been modified to reflect these changes in the PA project monitoring and quarterly reporting process (the draft is complete and under PA management review).

ENDNOTES—AUDITOR COMMENTS

[1] The status of this issue remains unchanged. Please refer to reference number 2005-12-1 for additional information.

[2] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-13-1 for additional information.

[3] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-12-3 for additional information.

[4] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-13-2 for additional information.

[5] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-2-2 for additional information.

[6] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-9-2 for additional information.

[7] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-2-3 for additional information.

[8] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-3-1 for additional information.

[9] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-3-3 for additional information.

[10] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-3-4 for additional information.

[11] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-3-2 for additional information.

[12] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-3-5 for additional information.

[13] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-5-1 for additional information.

[14] We reported a similar weakness in our audit of fiscal year 2004-05 for federal program 84.298 only. Please refer to reference number 2005-7-2 for additional information. For clarification purposes, we are presenting the official program names. Title I is Title I Grants to Local Education Agencies; Title II is Improving Teacher Quality State Grants; Title III is English Language Acquisition Grants; Title V is State Grants for Innovative Programs; and Vocational Education is Vocational Education - Basic Grants to States.

[15] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-7-1 for additional information.

[16] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-14-3 for additional information.

[17] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-14-1 for additional information.

[18] Although Health Services has requested approval from the federal Centers for Medicare and Medicaid Services to forgive past overpayments, it has not yet received approval.

[19] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-5-2 for additional information.

[20] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-12-4 for additional information.

[21] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-13-3 for additional information.

[22] For our audit of fiscal year 2003-04, we reported that Community Services could not provide sufficient evidence to support its decision to waive the repayment of approximately $350,000 in federal funds for one subrecipient's disallowed costs. At that time, Community Services said that it planned to collect the disallowed costs. However, in an effort to avoid litigation expenses and in recognition of the uncertain outcome if the matter were put to a neutral fact finder, Community Services and the subrecipient entered a settlement agreement (agreement) instead. According to the agreement, both parties consent to reduce the amount in controversy to $169,121.50. In addition, the agreement states that Community Services is not characterizing this amount as disallowed costs, a debt to be repaid or any other kind of liability, and that the subrecipient satisfies its obligation under the agreement by disavowing eligibility to receive this amount from the leveraged incentive fund and another fund that Community Services administers.

[23] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-13-4 for additional information.

[24] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-14-4 for additional information.

[25] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-12-2 for additional information.

[26] We reported a similar weakness in our audit of fiscal year 2004-05. Please refer to reference number 2005-12-6 for additional information.

Agency response provided as text only.

Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

April 18, 2006

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

Dear Ms. Howle:

State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2005

Thank you for the opportunity to respond to the internal control and state and federal compliance audit report. This report was the result of your examination of the state's general purpose financial statements and administration of federal programs for the fiscal year ended June 30, 2005, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations. Although our internal controls and administration of federal awards can always be improved, the state is committed to sound and effective fiscal oversight.

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

In meeting our responsibility for financial leadership and oversight, the Department of Finance conducts internal control reviews of state departments and also reviews areas of potential weakness in the state's fiscal systems. In addition, we provide oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing audit memos to departments that establish statewide policy and provide technical advice on various audit related issues. We will soon issue an audit memo concerning the results of the fiscal year 2004-05 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 Diana L. Ducay, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

(Signed by Michael C. Genest)

MICHAEL C. GENEST
Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press