CALIFORNIA STATE AUDITOR

State of California

Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2011

March 2012 Report 2011-002

Independent NONPARTISAN
TRANSPARENT Accountability

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Elaine M. Howle
State Auditor

Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR
Bureau of State Audits

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March 30, 2012 2011-002

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 8543 et seq., the State Auditor's Office presents this 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, 2011.

This report concludes that the State did not materially comply with certain requirements for four of the 35 federal programs or clusters of programs (federal programs) we audited. Additionally, although we were able to conclude that the State materially complied with requirements for the remaining federal programs we audited, we reported various instances of noncompliance relating to those programs. Further, the State continues to experience certain deficiencies in its accounting and administrative practices that affect its internal controls over compliance with federal requirements and over financial reporting. Deficiencies in the State's internal control system could adversely affect its ability to administer federal programs in compliance with applicable requirements and to provide accurate financial information.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

Contents

AUDITOR'S SECTION

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

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

The Governor and the Legislature of the State of California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California as of and for the year ended June 30, 2011, which collectively comprise the State of California's basic financial statements, and have issued our report thereon dated February 24, 2012. Our report includes a reference to 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. As described in our report on the State of California's financial statements, other auditors audited the financial statements of the following:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 86 percent and 36 percent, respectively, of the 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 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, State Lottery fund, and California State University fund.

- Certain nonmajor enterprise funds that represent 92 percent and 66 percent, respectively, of the assets and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System, and certain other funds that, in the aggregate, represent 90 percent and 76 percent, respectively, of the assets and additions of the fiduciary funds and similar component units.

- The discretely presented component units noted above.

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

Internal Control Over Financial Reporting

Management of the State of California is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of California's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, items 2011-15-1 through 2011-15-4, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters, items 2011-15-5 and 2011-15-6, as described in the accompanying section on internal control and compliance issues applicable to the financial statements and state requirements, that are required to be reported under *Government Auditing Standards*.

The State of California's responses to the findings identified in our audit are described in the accompanying section on internal control and compliance issues applicable to the financial statements and state requirements. We did not audit the State of California's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governor and the 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.

CALIFORNIA STATE AUDITOR

JOHN F. COLLINS II, CPA
Deputy State Auditor

February 24, 2012

Elaine M. Howle
State Auditor

Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR
Bureau of State Audits

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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The State of California's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of California's management. Our responsibility is to express an opinion on the State of California's compliance based on our audit. We did not audit the State of California's compliance with the requirements of the U.S. Environmental Protection Agency's Capitalization Grants for Clean Water State Revolving Funds (CFDA Number 66.458) and the Capitalization Grants for Drinking Water State Revolving Funds (CFDA Number 66.468). These programs account for less than 1 percent of the total federal assistance received by the State of California and are included in the accompanying schedule of expenditures of federal awards. Other auditors have audited the State of California's compliance with these programs' requirements and their reports thereon have been furnished to us. Our opinion, insofar as it relates to these programs, is based solely on the report of the other auditors.

The State of California's basic financial statements include the operations of the University of California and the California State University systems, as well as the California Housing Finance Agency, a component unit of the State. However, these entities are not included in the accompanying schedule of findings and questioned costs for the year ended June 30, 2011. Further, they are generally not included in the schedule of expenditures of federal awards, except for $213 million passed through to the University of California and the California State University systems through the State Fiscal Stabilization Fund—Education State Grants, Recovery Act (CFDA Number 84.394). The University of California and the California State University systems, and the California Housing Finance Agency, which reported expenditures of federal awards totaling $4.4 billion, $2.3 billion, and $76.4 million, respectively, engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

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

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

Table

COMPLIANCE REQUIREMENT(S)	FINDING NUMBER	FEDERAL DEPARTMENT	PROGRAM	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER
Activities Allowed/Allowable Costs				
	2011-1-1 and 2011-1-2	Health and Human Services	Medicaid Cluster: State Medicaid Fraud Control Units State Survey and Certification of Health Care Providers and Suppliers Medical Assistance Program	 93.775 93.777 93.778
Eligibility				
	2011-5-1	Health and Human Services	HIV Care Formula Grants	93.917
	2011-5-2	Health and Human Services	Medicaid Cluster: State Medicaid Fraud Control Units State Survey and Certification of Health Care Providers and Suppliers Medical Assistance Program	 93.775 93.777 93.778
Subrecipient Monitoring				
	2011-13-9	Education	Career and Technical Education - Basic Grants to States (Perkins IV)	84.048
	2011-13-10	Education	School Improvement Grants Cluster: School Improvement Grants School Improvement Grants, Recovery Act Funded	 84.377 84.388
Special Tests and Provisions—Provider Eligibility				
	2011-14-3	Health and Human Services	Medicaid Cluster: State Medicaid Fraud Control Units State Survey and Certification of Health Care Providers and Suppliers Medical Assistance Program	 93.775 93.777 93.778

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

In our opinion, except for the noncompliance described in the Table, the State of California complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

2011-2-1, 2011-3-1, 2011-4-1, 2011-5-4, 2011-5-5, 2011-5-6, 2011-7-5, 2011-7-8, 2011-12-2, 2011-12-3, 2011-12-4, 2011-12-5, 2011-12-7, 2011-13-1, 2011-13-2, 2011-13-3, 2011-13-4, 2011-13-5, 2011-13-7, 2011-13-11, 2011-13-12, 2011-13-14, 2011-13-16, 2011-14-1, 2011-14-2, 2011-14-4, 2011-14-5, 2011-14-6, and 2011-14-7.

Internal Control Over Compliance

The management of the State of California is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the State of California's internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-1-1, 2011-1-2, 2011-3-2, 2011-5-1, 2011-5-2, 2011-5-6, 2011-7-5, 2011-7-7, 2011-13-4, 2011-13-9, 2011-13-10, 2011-13-14, 2011-13-17, 2011-14-3, 2011-14-4, 2011-14-5, 2011-14-6, and 2011-14-7 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-1-5, 2011-2-1, 2011-2-2, 2011-3-1, 2011-4-1, 2011-5-3, 2011-5-4, 2011-5-5, 2011-7-1, 2011-7-2, 2011-7-8, 2011-12-2, 2011-12-3, 2011-12-5, 2011-12-7, 2011-13-1, 2011-13-2, 2011-13-3, 2011-13-5, 2011-13-6, 2011-13-7, 2011-13-8, 2011-13-11, 2011-13-12, 2011-13-16, 2011-14-1, and 2011-14-2 to be significant deficiencies.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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, 2011, and have issued our report thereon dated February 24, 2012. 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 86 percent and 36 percent, respectively, of the 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 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, State Lottery fund, and California State University fund.

- Certain nonmajor enterprise funds that represent 92 percent and 66 percent, respectively, of the assets and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System that, in the aggregate, represent 90 percent and 76 percent, respectively, of the assets and additions of the fiduciary funds and similar component units.

- The discretely presented component units noted above.

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

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State of California's basic financial statements. The accompanying schedule of expenditures of federal awards 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. Except for $213 million passed through to the University of California and the California State University systems from the State Fiscal Stabilization Fund—Education State Grants, Recovery Act (CFDA Number 84.394), the schedule of expenditures of federal awards generally does not include federal awards expended by these systems, and 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.

CALIFORNIA STATE AUDITOR

Denise L. Vose

DENISE L. VOSE, CPA
Deputy State Auditor

February 24, 2012

Schedule of Findings and Questioned Costs

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STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness (es) identified?	Yes
Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes
Type of auditor's reports issued on compliance for major programs:	
Career and Technical Education—Basic Grants to States (84.048)	Qualified
School Improvement Grants Cluster: School Improvement Grants; and School Improvement Grants, Recovery Act (84.377 and 84.388)	Qualified
Medicaid Cluster: State Medicaid Fraud Control Units, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program (93.775, 93.777, and 93.778)	Qualified
HIV Care Formula Grants (93.917)	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	$136.3 million
Auditee qualified as low-risk auditee?	No

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Identification of Major Programs:

CFDA Number	*Name of Federal Program or Cluster of Programs*
	CCDF Cluster
	Child Nutrition Cluster
	Disability Insurance/SSI Cluster
	Highway Planning and Construction Cluster
	Immunization Cluster
	Medicaid Cluster
	School Improvement Grants Cluster
	SNAP cluster
	Special Education Cluster (IDEA)
	State Fiscal Stabilization Fund Cluster
	TANF Cluster
	Title I, Part A Cluster
	Vocational Rehabilitation Cluster
	WIA Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
14.239	Home Investment Partnerships Program
14.258	Tax Credit Assistance Program (Recovery Act Funded)
17.225	Unemployment Insurance
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
81.042	Weatherization Assistance for Low-Income Persons
84.011	Migrant Education—State Grant Program
84.048	Career and Technical Education—Basic Grants to States
84.287	Twenty-First Century Community Learning Centers
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
84.410	Education Jobs Fund
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.658	Foster Care—Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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

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EMPLOYMENT DEVELOPMENT DEPARTMENT

Reference Number: 2011-15-1

Condition

Employment Development Department (EDD) improperly reported its current accounts receivable balance for the Unemployment Insurance Fund (UI), the Disability Insurance Fund (DI), and the Benefit Audit Fund (BAF) for fiscal year 2010–11. For these funds, EDD recorded about $1.1 billion that it expected to collect in periods subsequent to fiscal year 2011–12. However, it was not able to support that the $1.1 billion could actually be collected, and it also incorrectly recorded these long-term receivables in a current receivables account. This resulted in a $1.1 billion overstatement of current accounts receivable, a $700 million understatement of expenses in the UI and DI funds, and a $400 million overstatement of revenues in the BAF fund. Although EDD has controls in place to review such entries for reasonableness, we found that it's review was ineffective in preventing the improper recording of these amounts. EDD acknowledged the errors, and the State Controller's Office corrected the $1.1 billion over statement.

Criteria

For governmental funds such as BAF, Governmental Accounting and Financial Reporting Standards (accounting standards) require that revenues be recognized in the accounting period in which they become available and measurable. For proprietary funds such as UI and DI, accounting standards state that generally accepted accounting principles (GAAP), which are similar to those used by businesses in the private sector, are applicable. GAAP requires accounts receivables be reported in the financial statements at net realizable value, that is, in the amount that is expected to be collected. Additionally, GAAP defines current assets as resources that are expected to be realized in cash during the next year.

The *State Administrative Manual*, Section 10500 requires that for these types of transactions to be classified as current accounts receivable they must be estimated to be collectible within the ensuing fiscal year.

Recommendation

EDD should complete a more thorough review of its accounting entries, including a review of applicable accounting standards and the calculations supporting its entries.

Department's View and Corrective Action Plan

EDD agrees with the Bureau of State Audit's finding that the adjusting entries for benefit receivables were not fully supported with respect to the actual collectability of the amounts. EDD also agrees that the debit sides of the adjusting entries were inadvertently submitted as "Accounts Receivable – Current" rather than "Accounts Receivable – Noncurrent". EDD has reversed the entry for BAF and requested that the State Controller's Office reverse the entries for UI and DI. EDD will complete a more thorough review of such entries, if required in the future, to ensure the entries are recorded for the proper amounts and in the proper accounts. This review will include using the financial analyses necessary to make the most accurate future collection projections while adhering to the applicable accounting principles.

Reference Number: 2011-15-2

Condition

The Employment Development Department (EDD) had weak general controls over its information systems for fiscal year 2010–11. General controls are the policies and procedures related to all or a large segment of an entity's information systems. While ineffective general controls do not, by themselves, cause misstatements, they may permit controls over individual systems to operate improperly and allow misstatements to occur and not be detected.

In January 2011, EDD's director certified that EDD had implemented a fully developed Risk Management and Privacy Program that complied with all applicable policy requirements. However, we found major deficiencies in several areas certified as fully implemented. Further, these deficiencies impact the effectiveness of the general controls over its information systems. Specifically, we found EDD's entitywide information security policy was outdated, included references to the *State Administrative Manual* and the California Government Code that no longer exist, referenced expired EDD policies for additional guidance, and was missing several mission-critical programs from a list of EDD Major Systems. In addition, we determined that EDD had an insufficient risk management program due to an inadequate risk assessment completed in August 2011, and an expired policy with outdated references. Furthermore, we found that EDD did not have an incident response plan prior to January 2012. Because we identified these significant weaknesses in EDD's information systems general controls, we did not complete additional testing of EDD's application system controls.

Unless EDD implements adequate general controls over its information systems, the completeness, accuracy, validity, and confidentiality of agency data will continue to be at risk. Specifically, the information systems used by EDD to report information for the Federal Unemployment Insurance program and the State's financial statements—such as the Tax Accounting System, Accounting and Compliance Enterprises System, and Single Client Database—may operate improperly and allow misstatements to occur and not be detected.

Criteria

According to Title 20 of the Code of Federal Regulations, Chapter V – Employment and Training Administration, Department of Labor, Part 602 – Quality Control in the Federal-State Unemployment Insurance System, Subpart B – Federal Requirements, Section 602.11, Secretary's Interpretation.(a), "The Secretary interprets Section 303(a)(1), SSA, to require that a State law provide for such methods of administration as will reasonably ensure the prompt and full payment of unemployment benefits to eligible claimants, and collection and handling of income for the State unemployment fund (particularly taxes and reimbursements), with the greatest accuracy feasible."

The *State Administrative Manual*, Section 5310, states, "The purpose of information security policy… [is] to establish and maintain a standard of due care to prevent misuse or loss of state agency information assets. Policy provides management direction for information security to conform with business requirements, laws, and administrative policies… Each agency must provide for the integrity and security of its information assets by establishing appropriate internal policies… for preserving the integrity and security of each automated, paper file, or data base…"

The *State Administrative Manual*, Section 5305, states, "Risk management is the process of taking actions to avoid or reduce risk to acceptable levels. This process includes both the identification and assessment of risk through risk analysis (SAM Section 5305.1) and the initiation and monitoring of appropriate practices in response to that analysis through the agency's risk management program."

The *State Administrative Manual*, Section 5350, states, "Proper incident management includes the formulation and adoption of a written incident management plan that provides for the timely assembly of appropriate staff that are capable of developing a response to, appropriate reporting about, and successful recovery from a variety of incidents."

Recommendation

EDD should ensure that all policy requirements included in the *State Administrative Manual* Chapters 4800 and 5300 are fully implemented and updated on a regular basis to strengthen its general controls over its information systems.

Department's View and Corrective Action Plan

EDD acknowledges that some of its information technology policies and plans are outdated or deficient and that it has not fully complied with some provisions of the State Administrative Manual (SAM) relating to documenting its information technology practices. EDD also concurs that meeting the SAM guidelines will help to improve its general controls over its information systems.

However, EDD has strong controls over its information systems and the completeness, accuracy, validity, or confidentiality of EDD data is not at risk. EDD does not agree that the deficiencies identified during the audit constitute significant weaknesses in its controls. An expired policy document does not mean the practices and procedures delineated by that policy are inadequate or no longer being followed. EDD's practice has been to continue following "expired" policy directives until those policies are eliminated or superseded. Likewise, other deficiencies in policy documents do not mean EDD's control practices and procedures are seriously flawed. Actual testing of EDD's controls would have revealed that the ongoing practices EDD uses to develop and manage its information systems results in an acceptably low level of risk of significant misstatements in data and reported information.

EDD has a strong "track record" of successfully managing its information systems, projects, and infrastructure. Since June 2008, EDD has effectively implemented hundreds of major programming changes in response to State and federal legislation related to the Unemployment Insurance (UI) program; most notably those needed for various federal extensions. These programming changes were made quickly and with little advance notice. Over the same period, during its highest workload period ever, EDD successfully implemented millions of dollars worth of information technology projects. Additionally, EDD successfully completed its Internal Revenue Service (IRS) Safeguard Review which focused specifically on data security. This positive track record would not be possible if the information systems controls actually in operation were significantly deficient.

While EDD believes the items identified during the audit have not adversely affected its operations, EDD recognizes that bringing its policies, plans, and documentation current and into full compliance with SAM provisions can only improve its already effective information systems controls. Accordingly, EDD will continue to perform its ongoing policy review to identify, analyze and correct issues pertaining to outdated and/or unnecessary policies. As discussed with the Bureau's auditors, this review will result in filling any gaps in EDD's security-related policies while removing redundant policies and/or policies that speak to technologies or business processes that are no longer relevant to the EDD environment. Throughout this effort EDD will adhere to state guidelines and the National Institute of Standards and Technology's (NIST) framework to ensure that EDD complies with all SAM provisions.

The EDD has already taken steps to address the concerns raised by the auditors. In January 2012, EDD implemented an updated Incident Management Plan consistent with SAM 5350. Earlier, in June 2011, EDD put into effect and practice two policies pertaining to the adoption of System Security Plans (SSP). The first policy sets the criteria for each SSP and the second requires that all new systems complete the SSP before moving to production and all current systems complete the SSP within two years. The SSP process follows the NIST Risk Framework. As was conveyed to the auditors, EDD successfully completed the SSP for the Accounting and Compliance Enterprises System project and is in the process of establishing the General Security Plan which encompasses the Enterprise Common Controls. EDD is currently in the process of drafting policy which would describe the EDD's risk management program. The SSP compliance methodology along with accepted security focused risk management practices will form the basis of the Enterprise Information Security Risk Management program compliant with SAM 5305. Finally, EDD has now released its Policy on the Information Security Program (PISP) for EDD Executive signature. This PISP provides the required security controls and direction for EDD to be in compliance with SAM 5310.

Auditor's Comments on Department's View

We acknowledge that EDD has taken steps to address our concerns. However, we disagree with EDD's assertion that the deficiencies identified during our audit do not constitute significant weaknesses in the controls over its information systems. For example, we determined that EDD had an insufficient risk management program and lacked an incident response plan during the period of our review.

Consequently, EDD could not ensure that it adequately identified and mitigated risks associated with its information assets, or that it appropriately responded and applied lessons learned from security incidents.

While we concur with EDD that an expired policy does not necessarily mean that the practices and procedures prescribed within it are defunct, expired policies may reduce EDD's ability to hold its staff accountable for protecting its information assets. Further, in the absence of an adequate risk assessment, EDD cannot ensure that its security policies incorporate practices and procedures that mitigate the current threats and vulnerabilities of its information assets.

Finally, EDD's assertion that it implemented hundreds of major programming changes does not equate to EDD having sufficient controls over its information systems. Rather, it is precisely the dynamic environment in which it operates that reinforces the need for EDD to conduct adequate risk assessments and regularly update its policies to ensure that it implements strong general controls over its information systems. Further, EDD's statement that it successfully completed its IRS Safeguard Review, which focused specifically on data security, is misleading. The preliminary results of the IRS's Safeguard Review identified 23 significant findings related to general control weaknesses. The IRS will require EDD to report on the corrective action(s) taken to address each finding until closed by the IRS.

DEPARTMENT OF CORRECTIONS AND REHABILITATION

Reference Number: 2011-15-3

Condition

In its fiscal year 2010–11 financial statements, the California Department of Corrections and Rehabilitation (Corrections) again incorrectly reported certain capital asset balances for buildings. Last year, we issued a finding to Corrections related to misclassifications in its governmental funds of buildings associated with capital leases. Corrections committed to revising its financial statements to reflect the overstatement we identified and to performing additional reviews to ensure the correct reporting of buildings balances in its fiscal year 2010–11 financial statements. However, it actually corrected $14 million less than we previously identified as having been misclassified and made little progress in identifying further missclassifications. To evaluate the level of remaining potential misclassification this year, we identified five buildings included in Corrections' governmental funds, totaling about $571 million, which had corresponding large capital leases outstanding with the State Public Works Board (Board). Based on our testing of these items, we confirmed that Corrections had incorrectly classified over $220 million as governmental fund assets. Corrections accordingly reduced its buildings balance for governmental funds by about $223 million. We also noted a continuing potential overstatement in Corrections' buildings' balance of about $184 million. The potential overstatement is related to other buildings reported in Corrections' governmental funds that may also be associated with capital leases through the Board. Corrections stated that the misclassifications were caused by a combination of bad data, insufficient communication regarding changes in procedures, and data that was corrupted during the transition to a new accounting system.

At fiscal year-end, the State Controller's Office (SCO) gathers information on California's capital assets from various sources and presents it in the Comprehensive Annual Financial Report (CAFR). Buildings and improvements within the capital assets governmental activities section of the CAFR include buildings owned by state departments as well as buildings that departments are purchasing through leases with the Board. The SCO obtains information on buildings that are owned by departments through departments' financial statements and obtains information on capital leases with the Board through Department of General Services' reports. When departments, in their year-end financial reports to the SCO, include buildings they are buying through capital leases with the Board, they cause assets to be double counted in the CAFR.

Criteria

The *State Administrative Manual*, section 6872 states that the title of a building under lease with the Board remains with the Board until the associated debt is retired. Thus, buildings that are still under lease should not be reported in governmental funds.

The *State Administrative Manual*, sections 7977, 7978, and 8660, require departments to report in their financial statements to the SCO all additions and deductions to real property. These sections also require that departments report real property by the source of the funds used to acquire each property. The SCO uses these reports to compile the information related to capital assets that it presents in the CAFR.

Recommendations

In order to ensure its buildings balance is correctly stated, Corrections should identify any remaining buildings in its governmental funds that are associated with capital leases and reclassify them to the appropriate nongovernmental funds. Corrections should also improve internal communications and correct erroneous data related to accounting for capital assets.

Department's View and Corrective Action Plan

Corrections is currently reviewing additional data to identify further potential misclassifications with the goal of correcting information for our upcoming fiscal year 2011–12 financial statements. Corrections will continue to work in the 2012–13 fiscal year to identify and correct financial data to ensure proper classification of assets. Corrections has also developed procedures to ensure that future constructed assets with capital leases are properly classified.

DEPARTMENT OF TRANSPORTATION

Reference Number: 2011-15-4

Condition

In fiscal year 2010–11, the California Department of Transportation (Caltrans) failed to comply with certain requirements related to managing infrastructure assets accounted for under the modified approach. As required by Governmental Accounting and Financial Reporting Standards (accounting standards), Caltrans completed a pavement-condition survey (survey) in March 2008 and thus needed to complete its next survey by March 2011. However, Caltrans did not complete this survey until December 2011, nine months after the required deadline, resulting in a lapse in compliance. Caltrans stated that the survey was delayed due to modifications it made to improve the data for pavement performance modeling. It said it made these changes in order to improve the survey's comparability with prior surveys and to aid in the transition to new survey software. Following the accounting standards related to infrastructure under the modified approach is significant because governments that fail to comply must begin depreciating their infrastructure assets.

Criteria

Accounting standards allow governments to account for infrastructure assets under what is referred to as the "modified approach". Under this approach, which does not require infrastructure assets to be depreciated, governments must meet several requirements including completing condition assessments of their infrastructure assets at least every three years and documenting that these assets are being preserved at an established condition level. Governments must present the assessed condition of infrastructure as required supplementary information in their comprehensive annual financial reports.

Recommendations

Caltrans should establish a process to ensure that it will complete pavement condition surveys at least every three years. Caltrans should complete its next pavement condition survey by the fall of 2014 to ensure that the State Controller's Office has adequate time to review the survey and include relevant information from it in the State's comprehensive annual financial report for fiscal year 2013–14.

Department's View and Corrective Action Plan

Caltrans concurs with the recommendation and is on track to complete the next Pavement Condition Survey by December 2013.

CALIFORNIA COMMUNITY COLLEGES CHANCELLOR'S OFFICE

Reference Number: 2011-15-5

Condition

The California Community Colleges Chancellor's Office (Chancellor's Office) authorized $5.9 million in general apportionments to three community college districts that were not entitled to receive such amounts in fiscal year 2010–11. Further, the Chancellor's Office has authorized a total of $45.5 million of such payments to these same districts since fiscal year 2005–06, without explicit legal authority.

Community college districts receive apportionment funding primarily from three sources: property taxes, student fees, and the State's General Fund. When local property taxes and student fees alone do not meet a district's apportionment target, the General Fund provides additional funding, referred to as general apportionments, to each district. The Chancellor's Office calculates each district's general apportionment annually based on criteria set forth in Education Code sections 84750.5 through 84751.5, including data on student enrollment and local revenues. Districts that have local property tax and student fee revenues that exceed their apportionment target are not entitled by law to receive general apportionment funding from the State. These districts are known as excess tax school entities, or basic aid districts.

According to the Director of Fiscal Services of the Chancellor's Office (director), since fiscal year 2005–06, revenues for three of the State's 72 community college districts—Mira Costa, Marin, and South Orange—have exceeded their apportionment target. However, while these districts did not meet the criteria set forth in Education Code Sections 84750.5 through 84751.5 to receive general apportionment funding, the Chancellor's Office authorized such funding for each of the last six years. Annually, these amounts ranged from $5.7 to $8.7 million between fiscal years 2005–06 and 2010–11.

The director stated that the Chancellor's Office has authorized a portion of general apportionment funding to the three districts each year since fiscal year 2005–06 to compensate for their loss of Partnership for Excellence funding. The Partnership for Excellence Program, created by Senate Bill 1564 in 1998, provided supplemental funding until January 1, 2005 to community colleges for the purposes of achieving annual performance goals and improving student learning and success. The text that authorized Partnership for Excellence funding was not included in Budget Acts subsequent to fiscal year 2004–05. The director stated that for fiscal year 2005–06, the Department of Finance provided budget-related documents to the Chancellor's Office showing an increase in general apportionment funding that matched the amount previously provided through the Partnership for Excellence Program. He further explained that because net funding did not change, the Chancellor's Office interpreted the increase in general apportionment funding as a reclassification of funding that was not intended to reduce funding to basic aid districts. However, the Chancellor's Office cannot demonstrate that it sought a legal opinion to support its decision to authorize general apportionment funding to basic aid districts after the expiration of Partnership for Excellence funding.

In addition, since fiscal year 2005–06, the Chancellor's Office has not presented these payments as general apportionments in the state apportionment reports it publishes on its website. Instead it reported them as "Partnership" in fiscal year 2005–06, "other base entitlement" in fiscal year 2006–07 and as "other adjustments" since fiscal year 2007–08. For this reason, it has not been clear to the public that the three districts have effectively received general apportionment funding. By allocating general apportionment funding to basic aid districts, the amount of funding available for the remaining 69 community college districts was reduced by $45.5 million between fiscal years 2005–06 and 2010–11.

Criteria

Education Code Section 84328 requires the Board of Governors of the California Community Colleges to certify each apportionment made by it to the Controller.

Revenue and Taxation Code Section 95 states that an "excess tax school entity" means an educational agency for which the amount of the state funding entitlement determined under Education Code sections 2558, 42238, 84750 or 84751, as appropriate, is zero.

Education Code 84751 provides the methodology used in determining each community college district's revenue level for each fiscal year.

Recommendations

To ensure that community college districts that rely on general apportionment funding receive their entitled amounts, the Chancellor's Office should do the following:

- Discontinue distributing general apportionment funding to districts that do not meet the criteria set forth in the Education Code for receiving general apportionment funding, also known as basic aid districts.

- Recover $45.5 million in general apportionments paid to the Mira Costa, Marin, and South Orange community college districts, and redistribute these monies to the remaining community college districts.

To ensure community college apportionments are made based on appropriate legal authority, the Chancellor's Office should seek advice from its legal office prior to certifying apportionments when it believes that the authority to allocate community college apportionment funding is unclear.

Department's View and Corrective Action Plan

The Chancellor's Office agrees that these payments should be discontinued, and stated that it has begun phasing out Partnership for Excellence payments to the three basic aid districts. For fiscal year 2011–12, the Chancellor's Office stated that these districts will receive one-half of the value of the Partnership for Excellence payments and will not receive any further Partnership for Excellence funding after fiscal year 2011–12.

The Chancellor's Office disagrees that the prior payments should be recovered from the districts. It believes that the payments were made due to a reasonable interpretation of the situation, and it would be a hardship to compel the districts to repay funds paid out over a number of prior years due to a revision in understanding of legislative intent.

The Chancellor's Office agrees with the State Auditor's recommendation that it should seek advice from its legal staff where the interpretation of statute concerning apportionments is unclear, and stated it will endeavor to do so when appropriate.

CALIFORNIA COMMUNITY COLLEGES CHANCELLOR'S OFFICE
STATE CONTROLLER'S OFFICE
DEPARTMENT OF FINANCE

Reference Number: 2011-15-6

Condition

The California Community Colleges Chancellor's Office (Chancellor's Office) certified an $832 million apportionment to community colleges, which the State Controller's Office (SCO) paid in July 2011, based on a law that was no longer in effect. Chapter 724 of the Statutes of 2010 (Chapter 724) authorized an $832 million appropriation to community colleges to be paid in July of 2011. However, Chapter 7 of the Statutes of 2011 (Chapter 7), which became law in March 2011, eliminated the text of the earlier law. Thus, the appropriation established by Chapter 724 was repealed and could not form the basis for a payment. In signing Chapter 7, the governor noted that community college deferral amounts identified in the legislation would be applied beginning with the 2011-12 fiscal year and that future legislation would clarify this intent. However, the law was not amended to authorize the $832 million payment until September 2011. If administering departments and control agencies do not ensure that disbursement requests are based on appropriate legal authority, the State risks making unauthorized disbursements.

To ensure that the SCO establishes appropriations in its accounting system in accordance with the law, the chief of the SCO's Bureau of Accounting (accounting chief) asserted that fiscal analysts monitor state legislation on a daily basis to identify new laws that create, eliminate, or modify appropriations. In addition, the chief of the SCO's Bureau of Payments (payments chief) stated that before the SCO sets up appropriations in its accounting system, it coordinates with the Department of Finance (Finance) to establish identifying item numbers. Once the appropriation is set up in its accounting system, the SCO's Local Apportionments Section processes payments based on schedules submitted by the Chancellor's Office. The Chancellor's Office's Vice Chancellor of College Finance and Facilities Planning (Vice Chancellor) stated that he is typically involved with the development of legislation that affects apportionments to community college districts, and he and the Chancellor's Office's Director of Finance monitor daily for changes in the law. He further stated that once apportionments are authorized in law, a fiscal services specialist calculates payments due to each community college district, which the Vice Chancellor then certifies and submits to the SCO in the form of an allocation schedule.

After the passage of Chapter 7 in March 2011, a program principal at Finance contacted the SCO's Division of Accounting and Reporting to inquire about the SCO's interpretation of the language in Chapter 7. The program principal stated that a concern had been raised that the legislation could be interpreted to mean that the community colleges would be subject to a double deferral. In response to this inquiry, a manager within the SCO's Division of Accounting and Reporting told Finance in March 2011 that his division would seek advice from the SCO's legal office. However, the SCO's chief legal counsel indicated that his office never received a request for a legal opinion on this matter. Moreover, he stated that his office was not involved in the issues surrounding the $832 million payment prior to inquiries made by the State Auditor's staff in August 2011. The payments chief further indicated that the procedures to guide staff in monitoring changes in legislation and establishing appropriations were not formalized, but rather they were documented as hand written notes located on various staffs' desks. She stated that the SCO established formal policies and procedures on August 31, 2011 to guide its staff in these processes, which include obtaining an opinion from the SCO's legal counsel when staff identify conflicting legislation.

The Vice Chancellor stated that neither he nor his fiscal services staff noticed that the $832 million apportionment had been struck from existing law during their review of Chapter 7. He further stated he was not aware that Chapter 7 had eliminated the apportionment until the State Auditor's staff questioned citing Chapter 724 as the legal authority for the $832 million payment request, in August 2011.

The SCO payments chief also stated that in coordinating with Finance in July 2011, Finance advised SCO staff to use an appropriation item number related to Chapter 724. SCO staff interpreted this action as Finance's concurrence with making the $832 million payment under Chapter 724. The manager of Finance's Budget Operations Support Unit stated that Finance coordinates with the SCO under an informal agreement to provide appropriation item numbers only to ensure that both agencies use matching numbers in their financial systems, not as a legal check on appropriations.

Finance's chief legal counsel indicated that given the governor's signing message attached to Chapter 7, Finance intended to include clarifying text within the May Revise of the fiscal year 2011-12 Budget to authorize the $832 million payment eliminated by Chapter 7. However, it was not until August 25, 2011, one day after the State Auditor's staff met with Finance to discuss the impact of Chapter 7 on this payment, that Finance's Program Budget Manager of Education proposed clarifying legislation in an e-mail to the Staff Director for the Senate's Standing Committee on Budget and Fiscal Review. This text was included in Chapter 15 of the Statutes of 2011, First Extraordinary Session, which the governor approved on September 20, 2011, and retroactively clarified that the $832 million payment made in July 2011 was authorized.

Both the Vice Chancellor and the SCO's accounting chief stated that they believe the intent of Chapter 7 was not to remove the legal authority for the $832 million appropriation established in Chapter 724, but rather to establish appropriations related to the fiscal year 2011-12 Budget Act. Further, both assert that their view of the intent of Chapter 7 was supported by schedules created by Finance showing apportionments for fiscal year 2011-12. Nevertheless, neither office took prompt action to ensure that authority for the appropriation existed in law prior to certifying or disbursing the apportionment payment.

Criteria

Education Code Section 84328 requires the Board of Governors of the California Community Colleges to certify each apportionment made by it to the SCO.

Government Code Section 12440 prohibits the SCO from making payments unless authorized by law.

Government Code Section 13070 states Finance has general powers of supervision over all matters concerning the financial and business policies of the State.

Recommendations

To ensure that community college payments are certified based on proper legal authority, the Chancellor's Office should seek advice from its legal office prior to certifying apportionment payments when legislation affecting community college apportionments is unclear.

To ensure that appropriations are established and payments are made under proper legal authority, the SCO should do the following:

- Ensure that staff follow newly formalized policies and procedures related to monitoring for the potential impacts of changing legislation and to establishing appropriation item numbers.

- Seek advice from its legal office when legislation has a potential impact on its legal authority to make payments.

To ensure that appropriations are established under proper legal authority, the SCO and Finance should formally define expectations for coordinating information on appropriation item numbers.

Departments' Views and Corrective Action Plan

The Chancellor's Office agrees with the State Auditor's recommendation that it should seek advice from its legal staff where the interpretation of statute concerning apportionments is unclear, and stated it will endeavor to do so when appropriate.

The SCO concurs with the spirit underlying the recommendations provided by the State Auditor, and understands the importance of staff following formal policies and procedures when monitoring legislation and establishing appropriations. As such, it says it has already strengthened its internal controls in this area and is resolved to continue to do so in order to ensure the integrity of state expenditures. However, it also said that its stewardship of the State's finances demands that it always act in the best interests of the people it serves, including taking reasonable actions to clean-up the unintended mistakes of others. It believes the payment it made was consistent with the intentions of the governor and the Legislature, and produced no material harm.

Finance concurs with the recommendation and stated it will work with the SCO to formalize an updated procedure for coordinating items of appropriation. Finance further stated that a meeting between the two departments has already been scheduled.

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

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California State Auditor

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THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Reference Number:	2011-7-6
Federal Catalog Number:	94.006
Federal Program Title:	AmeriCorps
Federal Award Numbers and Years:	10ESHCA001; 2010 10FXHCA002; 2010 09ACHCA001; 2009 09RCHCA002; 2009 06AFHCA001; 2006
Category of Finding:	Matching
State Administering Department:	CaliforniaVolunteers

Criteria

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

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

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

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

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

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

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

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

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

    (i) Be verifiable from your records;

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

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

    (iv) Be allowable under applicable OMB cost principles.

Condition

In our prior-year audit, we reported that CaliforniaVolunteers had not ensured its established policies and procedures for fiscal desk reviews were followed. Specifically, we found that it did not verify the allowability of grantee match contributions for the fiscal desk reviews we tested where requirements to verify match contributions existed. CaliforniaVolunteers' chief of staff indicated that the Department of Finance's Office of State Audits and Evaluations (Finance) was performing the remaining desk reviews. However, the chief of staff also indicated that although Finance verified the supporting documentation for the match requirement when performing desk reviews, it did not verify the source of the match. As a result, we reported that CaliforniaVolunteers could not assure that its subgrantees were meeting the match requirement. In its corrective action plan, CaliforniaVolunteers indicated that during 2011, as part of its fiscal year 2009–10 desk reviews, it planned to require subgrantees to document the source of matching funds and it intended to review this documentation to verify that the matching funds were from allowable sources.

We also reported that CaliforniaVolunteers had yet to eliminate its backlog of fiscal desk reviews. The chief of staff indicated that as of January 2011, CaliforniaVolunteers had completed only three fiscal desk reviews initially scheduled for program year 2007–08, and that it intended to have Finance complete the remaining reviews. According to a log that CaliforniaVolunteers maintained to track pending fiscal desk reviews, although Finance had completed nine of 34 pending fiscal desk reviews for program years 2007–08 and 2008–09, CaliforniaVolunteers had not yet approved any of those desk reviews. In its corrective action plan, CaliforniaVolunteers indicated that during 2011, it intended to eliminate the backlog of 2007–08 and 2008–09 fiscal desk reviews and begin processing 2009–10 reviews.

During our follow-up procedures, we found that CaliforniaVolunteers has not fully implemented its corrective action plan to ensure that its established policies and procedures for fiscal desk reviews are followed by verifying the allowability of grantee match contributions. CaliforniaVolunteers is in the process of informing subgrantees that they are required to provide all documentation that supports any match that is reported for the fiscal year 2009–10 awards, including the source of the match, but it does not expect its subgrantees to begin submitting the documentation until the end of 2011. Finally, we also found that CaliforniaVolunteers has not yet eliminated its backlog of fiscal desk reviews. The fiscal desk review officer stated that she is nearly finished with the 2007–08 reviews and she expects to eliminate the backlog of 68 fiscal desk reviews by the end of the 2010–11 fiscal year.

Questioned Costs

No specific questioned costs identified.

Recommendations

CaliforniaVolunteers should follow its policies and procedures when performing fiscal desk reviews to ensure its subgrantees submit documentation to support their matching funds, including the source of the match. It should then verify that the contributions are from allowable sources. Finally, CaliforniaVolunteers should continue implementing its fiscal monitoring workplan to eliminate its backlog of fiscal desk reviews.

Department's View and Corrective Action Plan

CaliforniaVolunteers stated that for the 29 fiscal desk reviews scheduled for the 2009–10 program year, it has requested the supporting documentation and it has already collected documentation from nine of these programs. CaliforniaVolunteers indicated that it plans to complete the majority of 2009–10 program year reviews in-house, but anticipates contracting with Finance for the completion of fiscal desk reviews that appear to be especially time consuming or complex.

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

Reference Number:	2011-13-11
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)
Federal Award Number and Year:	7CA440CA4; 2011

Federal Catalog Number:	93.558
Federal Program Title:	Temporary Assistance for Needy Families (TANF)
Federal Award Number and Year:	G-1102CATANF; 2011

Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV-E
Federal Award Numbers and Years:	1101CA1401; 2011 1101CA1404; 2011

Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance—Title IV-E
Federal Award Numbers and Years:	1101CA1403; 2011 1101CA1405; 2011 1101CA1407; 2011

Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant
Federal Award Number and Year:	G-1101CASOSR; 2011

Criteria

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

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

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

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

Condition

Social Services did not inform its county subrecipients of certain federal award information, such as the Catalog of Federal Domestic Assistance program title and number, and relevant federal laws and regulations that govern each program we reviewed. Specifically, Social Services has periodic, ongoing correspondence with counties through fiscal letters that it uses to notify them of various issues. Although Social Services annually issues a fiscal letter that informs the counties of the required federal award information, it failed to issue this letter in fiscal year 2010–11. The chief of the fund accounting and reporting bureau indicated that Social Services did not issue the letter because of workload issues, but has since implemented a process to ensure the letters are released timely in the future. By not providing award information and requirements to its county subrecipients, Social Services cannot be sure that its subrecipients are aware of and following all program requirements imposed on them.

Questioned Costs

No specific questioned costs identified.

Recommendation

Social Services should annually inform the counties of the federal award information and relevant federal laws, regulations, and terms and conditions governing the programs in its annual county fiscal letters.

Department's View and Corrective Action Plan

The California Department of Social Services (Social Services) agrees with this recommendation.

An annual County Fiscal Letter (CFL) that includes federal award information was not issued to the counties in fiscal year (FY) 2010–11. The annual county letter for FY 2011–12 (CFL 11/12-09) was issued on August 12, 2011. Beginning in FY 2012–13, this annual letter will be issued every October to coincide with the start of the new federal fiscal year. Social Services has revised its procedures to ensure that an annual letter is sent. In addition, reminders will be placed in the County Expense Claim Time Study and Claiming Instructions' quarterly claiming letters. These quarterly claiming letters provide instructions in advance of the next quarter. The first quarterly reminder regarding federal awards will be issued for the January through March 2012 quarter. Social Services will continue to update its federal grant Internet link with updated terms and conditions information on a monthly basis. A link to this Web site will be included in the annual and quarterly county fiscal letters issued to the counties.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2011-1-3
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-11; 2011 2B09SM010005-10; 2010 2B09SM010005-09; 2009
Category of Finding:	Activities Allowed, Allowable Costs
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

(b) Purpose of grants

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

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

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

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

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

(a) In general

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

(1) to provide inpatient services;

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

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

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

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

Condition

In our audit reports for fiscal years 2006–07 through 2009–10, we reported that Mental Health did not ensure that its subgrantees' expenditures were only for allowable activities and costs. Mental Health relied on the counties' budget and program description components of their applications to determine if funds would be used for allowable activities and costs. Specifically, the grant renewal application

instructions for the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (block grant) directs counties to include in their program narrative a description that specifies what is actually being paid for by the block grant funds. However, Mental Health did not require the counties to submit invoices, receipts, or payroll information to verify amounts they reported as expenditures. Additionally, Mental Health did not perform regular site visits to the counties to verify whether the block grant programs' activities and costs were allowable.

During our follow-up procedures for fiscal year 2010–11, we found that Mental Health has not yet implemented a process to verify that counties' actual expenditure of federal grant funds is for allowable activities and costs. According to Mental Health, in March 2011 it drafted a proposal identifying its options for reviewing counties' expenditures, which included conducting audits of the counties or reviewing invoices and other documentation from the counties to verify that activities and costs are allowable. As of July 2011, Mental Health had not determined which option it will implement.

Questioned Costs

No specific questioned costs identified.

Recommendation

Mental Health should complete its efforts to establish a process to ensure that only allowable activities and costs are paid for with block grant funds.

Department's View and Corrective Action Plan

Mental Health agrees with the finding. By November 2011 Mental Health plans to finalize the proposal and adopt an option to verify that counties' actual expenditures of federal grant funds are for allowable activities and costs. Mental Health plans to implement the process during fiscal year 2011–12.

Reference Number:	2011-5-6
Federal Catalog Number:	93.958
Federal Program Title:	Low-Income Home Energy Assistance (LIHEAP)
Federal Award Numbers and Years:	G-11B1CALIEA; 2011 G-10B1CALIEA; 2010 G-09B1CALIEA; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

(b) Certifications required for covered activities

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

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

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

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

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

Condition

CSD is not ensuring that local agencies, such as cities, counties, and non-profit organizations, obtain the appropriate documentation to substantiate their eligibility determinations. Specifically, CSD contracts with local agencies to make eligibility determinations and to provide assistance under LIHEAP to eligible participants residing in their service areas. However, for eight (16 percent) of the 50 applicant files we reviewed, local agencies either did not have appropriate documents supporting applicants' monthly income amounts or did not correctly identify the income on the intake form. For example, CSD's LIHEAP Eligibility and Verification Guide (eligibility guide) states that proof of income documents submitted by the applicant must be dated within six weeks of the applicant's intake date, which is the date the applicant applies for the services. Yet, in three instances local agencies accepted documents from applicants that were not dated within six weeks from the applicants' intake dates. In one of these instances, the local agency accepted income documentation dated nearly one year after the applicant's intake date. In four other instances, the documents supporting the applicant's income did not agree with the income reported on the intake forms. In three of these instances, the applicants' reported monthly incomes were overstated by $135, $172, and $263, respectively, while in the fourth instance, the applicant's monthly income was understated by $88. Finally, in another case, although the applicant reported no income, the local agency did not obtain a self-certification from the applicant as required by CSD's eligibility guide. By failing to obtain the appropriate documentation to support eligibility determinations, CSD risks providing LIHEAP funds to ineligible applicants.

Questioned Costs

No specific questioned costs identified.

Recommendation

CSD should obtain appropriate documentation to support their eligibility determinations for LIHEAP applicants.

Department's View and Corrective Action Plan

CSD concurs with the recommendation. CSD will contact the subject agencies to advise of eligibility discrepancies and to provide training and technical assistance to ensure understanding. In addition, CSD will host annual training workshops and webinars that will provide detailed information on Eligibility, Income and Intake requirements and program changes to all providers. CSD will continue verifying client eligibility during the on-site monitoring review and provide ongoing training and technical assistance as needed.

Reference Number:	2011-7-3
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-11; 2011 2B09SM010005-10; 2010 2B09SM010005-09; 2009
Category of Finding:	Earmarking
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

(b) Limitation on administrative expenses—

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

Condition

In our audit reports for fiscal years 2006–07 through 2009–10, we reported that Mental Health did not have official written policy or procedures in place to ensure that administrative costs were charged appropriately to the Substance Abuse and Mental Health Service's Administration's Block Grants for Community Mental Health Services (block grant). Mental Health charged all or a portion of salaries for certain key Substance Abuse and Mental Health Services Administration staff to the block grant, based on approved timesheets, but other expenditures, such as travel, were allocated to the block grant by staff's choice.

During our follow-up procedures for fiscal year 2010–11, we found that Mental Health still had not completed written policies and procedures to ensure that it consistently and properly applied administrative costs to the block grant. Mental Health stated that it formed a workgroup in February 2010 to develop a written policy, processes, and procedures to ensure that only allowable costs are used to meet the earmarking requirement.

Questioned Costs

No specific questions costs identified.

Recommendations

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

Department's View and Corrective Action Plan

Mental Health agrees with the finding. By November 2011, Mental Health plans to finalize the Administrative Cost Policy and its Substance Abuse and Mental Health Services' Administration Desk Manual. Mental Health plans to implement the processes and procedures to ensure that it consistently and properly applies administrative costs to the block grant during fiscal year 2011–12. In addition, the Substance Abuse and Mental Health Service's Administration Desk Manual will assist staff in the administration of the block grant.

Reference Number:	2011-7-4
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-11; 2011 2B09SM010005-10; 2010 2B09SM010005-09; 2009
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

(a) Allocation for systems of integrated services for children

(1) In general

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

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

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

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

(2) Waiver

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

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

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

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

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

(1) In general

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

(2) Exclusion of certain funds

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

(3) Waiver

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

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Register Vol. 66, No. 130 (July 6, 2001), contains a notice from the Substance Abuse and Mental Health Service Administration (SAMHSA) executive officer specifying that states are required as a condition of receipt of funds to maintain State expenditures for community based mental health services for adults with serious mental illness (SMI) and children with serious emotional disturbance (SED) at a level that was equal to the average expenditures for such purposes over the previous two years. The federal register also stated that the Secretary, as a matter within his discretion, had the authority to exclude from the calculation of the maintenance of effort "funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose."

Condition

In our audit reports for fiscal years 2006–07 through 2009–10, we reported that Mental Health needs to refine its process for complying with the MOE requirements. Specifically, Mental Health did not provide documentation to support the percentages it applied against the total of managed care and realignment expenditures to arrive at the amount it reported as expenditures for children with SED. Additionally, for the MOE requirement related to the State's expenditures for community mental health services, Mental Health did not report all state expenditures for adults with SMI and children with SED. Specifically, it did not include any expenditures from the Mental Health Services Act, and it could not positively state whether other state agencies fund community mental health programs for adults with SMI or children with SED. Moreover, Mental Health was unable to provide documentation that showed the components and expenditures used to generate the fiscal year 1994–95 expenditure threshold of $160 million.

During our follow-up procedures for fiscal year 2010–11, we found that Mental Health still has not implemented a process to comply with the MOE requirements. Specifically, all of the conditions that we reported for fiscal years 2006–07 through 2009–10 continued to exist during fiscal year 2010–11. However, although Mental Health did not implement corrective actions during fiscal year 2010–11, it did take steps to better ensure its compliance for future years. For example, Mental Health developed a methodology for determining the percentages to apply against managed care as part of determining the amount it reports as expenditures for children with SED. Mental Health also indicated that it is researching alternatives to determine the percentage it uses to support the realignment dollars used in its MOE calculation, and stated that it would implement these new methodologies in fiscal year 2011–12. Mental Health further stated that it requested guidance from its community services division on the reporting of all state expenditures for adults with SMI and children with SED. Specifically, it is determining the Mental Health Services Act expenditures that should be included in its MOE calculation. Finally, although Mental Health still has not located documentation to support its fiscal year 1994–95 expenditure threshold of $160 million, beginning with the 2012 federal block grant award, program changes will allow Mental Health to use state fiscal year 2008–09 as the new expenditure threshold for its allocation to systems of integrated services for children. According to Mental Health, this should resolve the issue for future years.

Questioned Costs

No specific questioned costs identified.

Recommendations

Mental Health should finalize and implement its methods to determine the percentages used to support the realignment dollars used in its MOE calculation and retain the supporting documentation. Mental Health also should finalize a methodology for calculating the community mental health services MOE requirement to ensure that it accurately captures and reports all state expenditures for adults with SMI and children with SED.

Department's View and Corrective Action Plan

Mental Health agrees with the finding. Mental Health plans to continue its efforts to develop a methodology to determine the dollar amount expended on approved actual claims for realignment, and will retain the supporting documentation. After the methodology for realignment is finalized and implemented, Mental Health will update and implement its methodology for calculating the community mental health services MOE requirement to accurately capture and report all state expenditures for adults with SMI and children with SED only.

Reference Number:	2011-7-7
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-11B1CALIEA; 2011 G-10B1CALIEA; 2010 G-09B1CALIEA; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006
Category of Finding:	Earmarking
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

(b) Certifications required for covered activities

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

(9) provide that—

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

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

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

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

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

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

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

Condition

CSD continues to lack sufficient internal controls to ensure that it meets earmarking requirements. Specifically, although CSD implemented a mechanism to track expenditures related to one of its earmarking requirements, it still does not track expenditures related to two others. As we reported in our last two annual audits, CSD's accounting records did not segregate administrative expenditures claimed by subrecipients, which would allow CSD to ensure that total administrative costs do not exceed the maximum 10 percent allowed. Similarly, its accounting records did not segregate amounts spent for "energy need reduction services," which would allow CSD to ensure that these costs do not exceed 5 percent of its LIHEAP funding. CSD planned to track earmarking requirements by assigning a specific code to earmarked dollars in its accounting system by June 2011. However, according to the deputy director for administrative services, currently CSD does not expect to implement this process until January 2012. Because it does not have a mechanism in place to track final LIHEAP expenditures related to the earmarking requirements, CSD cannot reasonably assure that the earmarking requirements have been met.

Questioned Costs

No specific questioned costs identified.

Recommendation

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

Department's View And Corrective Action Plan

CSD concurs with the recommendation. In January 2012 CSD implemented the automated tracking system for LIHEAP earmarks in the Expenditure Activity Reporting System.

Reference Number:	2011-12-7
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)

Federal Award Numbers and Years:	G-11B1CALIEA; 2011 G-09B1CALIEA; 2009 G-09B1CALIE2; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006
Category of Finding:	Reporting
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

(b) Financial summary of obligation and expenditure of block grant funds—

(2) *Block grants containing time limits on obligation of funds.* After the close of each statutory period for the obligation of block grant funds, each grantee shall report to the Department:

(i) Total funds obligated by the grantee during the applicable statutory period; and

(ii) The date of the last obligation.

(4) Submission of information. Grantees shall submit the information required by paragraph (b)(1), (2), and (3) of this section on OMB standard form 269A, Financial Status Report (short form). Grantees are to provide the requested information within 90 days of the close of the applicable statutory grant periods.

Financial Status Report (Short Form) – SF-269A, Instructions

10a Total Outlays. Enter total program outlays less any rebates, refunds, or other credits. For reports prepared on a cash basis, outlays are the sum of actual cash disbursements for direct costs for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to subrecipients. For reports prepared on an accrual basis, outlays are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase or decrease in the amounts owed by the recipient for goods and other property received, for services performed by employees, contractors, subgrantees and other payees, and other amounts becoming owed under programs for which no current services or performances are required, such as annuities, insurance claims, and other benefit payments

TITLE 2—GRANTS and agreements, part 170—Reporting subaward and executive information compensation, Appendix A to Part 170—Award Term

(a) *Reporting of first-tier subawards.*

(1) *Applicability.* Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term),

Condition

CSD continues to lack sufficient internal controls to ensure that it meets reporting requirements. Specifically, as we reported in our last two annual audits, CSD's procedures did not include steps to reconcile the federal share of program outlays shown in its internally developed spreadsheets to

its accounting records. It uses these spreadsheets to prepare its financial status reports. Although CSD implemented such a process in July 2010, it did not retroactively reconcile the expenditures it reported in prior quarterly reports. Because CSD carries forward the cumulative expenditures it previously reported as part of the federal share of program outlay, we could not determine whether the total federal share of program outlay it reported for fiscal year 2010–11 was supported by its accounting records. By failing to reconcile the amounts in its internally developed spreadsheets to its accounting records for all amounts included in the federal share of program outlays, CSD has less assurance that its financial status reports are accurate.

In addition, CSD did not comply with an additional reporting requirement for the 2011 LIHEAP grant. Specifically, although CSD approved subawards greater than $25,000 from its 2011 LIHEAP grant, it failed to report these subawards to the Federal Funding Accountability Transparency Act Subaward Reporting System as required. CSD stated that it was not aware of this requirement until we brought it to its attention.

Questioned Costs

No specific questioned costs identified.

Recommendations

CSD should reconcile the federal share of program outlays included in its internally developed spreadsheets to its accounting records for those expenditures it included in financial status reports prior to July 2010. In addition, CSD should ensure that it posts subawards greater than $25,000 to the Federal Funding Accountability Transparency Act Subaward Reporting System as required.

Department's View And Corrective Action Plan

CSD concurs with the recommendations.

CSD will reconcile the federal share of program outlays included in its internally developed spreadsheets to accounting records for expenditures included in financial status reports prior to July 2010.

CSD has been working with the Federal Department of Health and Human Services, Administration for Children and Families (ACF), to post subawards greater than $25,000 to the Federal Funding Accountability Transparency Act Subaward Reporting System. CSD contacted ACF in November of 2011 to report that the grants issued to CSD were not appearing in the federal reporting engine for CSD to report against our 2011 and 2012 LIHEAP grants. After a lengthy discussion, it was discovered that ACF had not entered CSD's DUNS numbers into the reporting system, which then made it so that CSD could not report.

The problem was resolved, but due to the fact that ACF only uploads to the federal reporting system every two weeks, it would be mid-December 2011 before CSD would have grants to report against. As of December 9, the 2012 LIHEAP grant was available to report against, however CSD had not issued contracts against this grant at that time.

The 2011 LIHEAP grant did not populate in the system, and after further discussions with ACF it was discovered that ACF would have to utilize its information technology staff to resolve this problem. This was discovered in January 2012, and it will be February 2012 before the 2011 grant has populated the reporting engine for CSD to report the 2011 LIHEAP contracts. At that time, all 2011 LIHEAP contracts will be entered into the system, and the 2012 contracts will be entered as they are issued to the contractors.

Reference Number:	2011-13-12
Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV-E
Federal Award Numbers and Years:	1101CA1404; 2011 1101CA1401; 2011
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services (Social Services)

Criteria

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

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

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

TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Section 92.40, Monitoring and Reporting Program Performance

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

Condition

Social Services did not follow its procedures to ensure that counties addressed issues identified during on-site reviews. Specifically, Social Services contracts with the Judicial Council of California (Judicial Council) to provide a variety of services that includes conducting a review of the counties' juvenile court procedures to ensure compliance with Title IV-E of the Social Security Act. After completing an on-site review, the Judicial Council prepares a report with recommendations, which it provides to both Social Services and the applicable county. Social Services' procedures require it to contact the county by letter to offer the county its assistance in addressing the recommendations and to monitor the county's progress in doing so.

During the current year, however, we found that Social Services did not issue letters to the 23 counties that Judicial Council reviewed nor did it perform any other follow-up procedures related to Judicial Council's recommendations. Social Services indicated that it did not issue the letters because of staff turnover in the position responsible for this task. When Social Services does not follow-up on the recommendations made by its contractor, it cannot ensure that the counties are taking appropriate and timely action to correct the deficiencies identify during these on-site reviews.

Questioned Costs

No specific questioned costs identified.

Recommendation

Social Services should follow its procedures to promptly communicate with the counties about Judicial Council's recommendations and monitor the progress of the counties to implement them.

Department's View and Corrective Action Plan

The California Department of Social Services (CDSS) concurs and has fully corrected the issue on December 23, 2011. The CDSS has issued all applicable Judicial Review and Technical Assistance Project (JRTA) Site Visits letters to the applicable counties which address the results of on-site reviews for fiscal year 2010–11. This ongoing responsibility now is assigned to a specific existing staff person to ensure timely and consistent compliance.

Reference Number:	2011-13-13
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Aging (Aging)
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Numbers and Years:	11AACAT3SP; 2011 10AACAT3SP; 2010

Federal Catalog Number:	93.045
Federal Program Title:	Special Programs for the Aging—Title III, Part C—Nutrition Services
Federal Award Numbers and Years:	11AACAT3SP; 2011 10AACAT3SP; 2010

Federal Catalog Number:	93.053
Federal Program Title:	Nutrition Services Incentive Program
Federal Award Numbers and Years:	11AACANSIP; 2011 10AACANSIP; 2010

Federal Catalog Number:	93.705
Federal Program Title:	ARRA—Aging Home-Delivered Nutrition Services for States
Federal Award Number and Year:	09AACAC2RR; 2009
Federal Catalog Number:	93.707

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

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NONPROFIT ORGANIZATIONS* (OMB CIRCULAR A133), Subpart D—Federal Agencies and Pass-Through Entities, Section .400—Responsibilities

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

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

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 92.40—Monitoring and Reporting Program Performance

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

Condition

During our current review, we found that Aging still is not ensuring that its subgrantees promptly address issues identified during its onsite assessments. Aging's policy requires its program staff to conduct onsite comprehensive assessments of each subgrantee every four years, as resources permit. As part of this assessment process, Aging requires its staff to issue their final reports to the subgrantees 75 working days after the exit conference it holds at the conclusion of the on-site visit. The subgrantees then have 30 working days to respond to the final report. During fiscal year 2010–11, Aging completed seven comprehensive assessments and held the related exit conferences. Our review of these seven assessments found that Aging did not issue its final reports within 75 working days of the respective exit conference for six of them. Specifically, Aging issued four reports between four days and five months beyond the 75-working-day deadline and, as of September 21, 2011, it had not yet issued the remaining two reports, which at that time exceeded the deadline by roughly four months and six months, respectively. According to the deputy director of Aging's Long-Term Care and Aging Services Division, Aging did not complete these final reports by their due dates because of staffing shortages. Moreover, two of the five subgrantees that received Aging's final report did not submit their responses to Aging within the 30-working-day requirement—one submitted its response two working days late and the other had not yet submitted the response as of September 21, 2011, nearly a month after it was due. When Aging does not issue its final reports on time and does not ensure that subgrantees submit their responses by the required deadlines, it cannot ensure that its subgrantees promptly address the issues identified during its onsite assessments.

Questioned Costs

No specific questioned costs identified.

Recommendations

Aging should ensure that it complies with its 75-working-day requirement for issuing final reports for all onsite comprehensive assessments it performs annually and ensure that subgrantees respond to its final reports within the required 30-working-days.

Department's View and Corrective Action Plan

Aging will immediately ensure staff are following its written procedures dated April 22, 2011, for "Monitoring Award Activities of Sub-Recipients." In addition, Aging will add due dates and internal staff roles and responsibilities to ensure that 1) Aging issues final reports for all on-site comprehensive assessments within 75 working days of the exit conference and, 2) takes steps to ensure subgrantees respond to final on-site comprehensive assessment reports within 30 working days of their receipt. By December 30, 2011, Aging will update its "Monitoring Award Activities of Sub-Recipients" procedures to document these revisions.

Reference Number:	2011-13-16
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-11B1CALIEA; 2011 G-10B1CALIEA; 2010 G-1001CALIE2; 2010 G-09B1CALIEA; 2009 G-0901CALIE2; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 25—UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25—Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Numbering System (DUNS) Numbers

If you are authorized to make subawards under this award, you:

1. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.

2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

C. Definitions

For the purpose of this award term:

3. Entity, as it is used in this award term, means all of the following, as defined at 2 CFR part 25, subpart C:

   a. A governmental organization, which is a State, local government, or Indian Tribe;

   b. A foreign public entity;

   c. A domestic or foreign nonprofit organization;

d. A domestic or foreign for-profit organization; and

e. A federal agency, but only as a subrecipient under an award or subaward to a non-federal entity.

Condition

Although required by federal law, CSD did not ensure that its subrecipients obtained DUNS numbers before providing them LIHEAP funds. CSD indicated that it was unaware of these requirements, and, as such, it did not implement a process to inform its subrecipients of the requirement or ensure their adherence to it. By not ensuring that its subrecipients have a DUNS number, CSD risks having the federal award agency revoke all, or part, of its LIHEAP award. CSD stated that it is in the process of adding language in its contracts to comply with this requirement.

Questioned Costs

No specific questioned costs identified.

Recommendations

CSD should implement a process to ensure that it informs potential subrecipients that they must obtain a DUNS number, and it should ensure that they have done so before approving their subaward for LIHEAP funds.

Department's View And Corrective Action Plan

CSD concurs with the recommendation. CSD has included language in the 2012 LIHEAP contract that states as follows:

"Pursuant to the Federal Funding Accountability and Transparency Act reporting requirements (2 CFR 170) CSD is required to report information regarding Contractors (sub-awardees) receiving LIHEAP funds. To assist CSD in ensuring timely compliance with these reporting requirements, Contractor shall provide to CSD its DUN & Bradstreet Data Universal Numbering System (DUNS) number, and Central Contractor Registration (CCR) number on the LIHEAP Agency Priority Plan in Exhibit H."

CSD is now collecting DUNS numbers for all LIHEAP agencies as indicated above via the LIHEAP Agency Priority Plan. The Contracts unit is keeping a spreadsheet of the DUNS and CCR numbers as provided to us with the returned contracts.

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

Reference Number:	2011-3-2
Category of Finding:	Cash Management
State Administering Department:	Department of Community Services and Development (CSD)
Federal Catalog Number:	81.042
Federal Program Title:	Weatherization Assistance for Low-Income Persons (Weatherization) Program
Federal Award Numbers and Years:	DE-FG26-06R021678; 2009 DE-EE0000180; 2009

Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-11B1CALIEA; 2011 G-10B1CALIEA; 2010 G-1001CALIE2; 2010 G-09B1CALIEA; 2009 G-0901CALIE2; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006

Criteria

TITLE 10—ENERGY, PART 600—FINANCIAL ASSISTANCE RULES, Subpart C—Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Section 600.220—Standards for Financial Management Systems

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

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

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

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

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

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

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

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

TITLE 10—ENERGY, PART 600—FINANCIAL ASSISTANCE RULES, Subpart B—Uniform Administrative Requirements for Grants and Cooperative Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Post-Award Requirements, Section 600.122—Payment

(i)(2) Advances of Federal funds shall be deposited and maintained in insured accounts whenever possible.

(l) For those entities where CMIA and its implementing regulations do not apply, interest earned on Federal advances deposited in interest bearing accounts shall be remitted annually to the HHS Payment Management System through an electronic medium such as the FEDWIRE Deposit system. Recipients which do not have this capability should use a check. The address is the Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852. Interest amounts up to $250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest. If an entity subject to CMIA uses its own funds to pay pre-award costs for discretionary awards without prior written approval from the Federal awarding agency, it waives its right to recover the interest under CMIA.

TITLE 10—ENERGY, PART 600—FINANCIAL ASSISTANCE RULES, Subpart C—Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Post-Award Requirements, Section 600.221—Payment

(i) Interest earned on advances. Unless there are statutory provisions to the contrary, grantees and subgrantees shall promptly, but at least quarterly, remit to the Federal agency interest earned on advances. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.

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

(d) Expending funds
The State shall expend funds in accordance with the State plan under this subchapter or in accordance with revisions applicable to such plan.

Condition

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

We also found that CSD's controls over its cash advances to subrecipients are not adequate to ensure that it complies with federal requirements. Specifically, during fiscal year 2010–11, CSD provided $17 million in cash advances to Weatherization program subrecipients and $20 million in cash advances to LIHEAP subrecipients for a total of $37 million. Although CSD's contracts with its subrecipients contain clauses requiring them to deposit its advances in interest-bearing accounts, CSD does not verify whether its subrecipients comply with this requirement. Additionally, although CSD indicated that when a contract expires it requires subrecipient to submit a closeout report that includes a summary of interest they have earned, CSD does not verify whether its subrecipients returned the interest quarterly to the federal government as required by federal regulations for the Weatherization program. Additionally, although the state plan for LIHEAP requires that CSD's subrecipients use the interest earned on cash advances for only specified activities including those that are allowable under LIHEAP, CSD does not verify that they used their interest earnings for those purposes. As a result, CSD's subrecipients may use the interest earned on federal program advances for activities that may not be allowable.

Questioned Costs

No specific questioned costs identified.

Recommendations

CSD should ensure that its staff follow procedures that are in place to provide adequate separation of duties. Additionally, CSD should develop and implement procedures to verify that subrecipients are depositing cash advances into interest-bearing accounts. It should further ensure that subrecipients are returning excess interest they earn from Weatherization program cash advances to the federal government and that they are spending the interest earned from LIHEAP cash advances in accordance with program requirements.

Department's View and Corrective Action Plan

CSD concurs with the recommendations. CSD will remind accounting staff of the importance of adhering to the separation of duties policy when advancing cash to subrecipients and will implement a supervisory review of the cash advance payment process. Additionally, CSD will develop and implement procedures as part of the on-site monitoring review protocol to verify that subrecipients deposit cash advances into interest-bearing accounts and comply with the federal requirements for returning or using excess interest earnings as appropriate.

Reference Number:	2011-13-17
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Community Services and Development (CSD)
Federal Catalog Number:	81.042
Federal Program Title:	Weather Assistance for Low-Income Persons (Weatherization) program
Federal Award Number and Year:	DE-FG26-06R021678; 2009
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)

Federal Award Numbers and Years: G-11B1CALIEA; 2011
G-10B1CALIEA; 2010
G-1001CALIE2; 2010
G-09B1CALIEA; 2009
G-0901CALIE2; 2009
G-08B1CALIEA; 2008
G-07B1CALIEA; 2007
G-06B1CALIEA; 2006

Criteria

TITLE 10—ENERGY, PART 600—FINANCIAL ASSISTANCE RULES, SUBPART C—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, POST, Section 600.240—Monitoring and Reporting Program Performance

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

TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Section 92.40—Monitoring and Reporting Program Performance

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

Condition

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

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

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

Questioned Costs

No specific questioned costs identified.

Recommendations

CSD should ensure that it performs all assessments in a timely manner as required by its policies and that it takes steps to resolve expenditure issues found as a result of these assessments. Further, CSD should ensure that all assessments are reviewed by a supervisor.

Department's View And Corrective Action Plan

CSD concurs with the recommendations. CSD will develop and implement a tracking system to ensure assessments are done in a timely manner. Additionally, CSD will implement changes in the assessment review and documentation procedures to ensure timely resolution of expenditure issues and that all assessments are reviewed by a supervisor.

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Reference Number:	2011-12-4
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M010-SG060100; 2010
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS*, (OMB CIRCULAR A-133), Subpart B—Audits, Section .205—Basis for determining Federal awards expended

(b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:

(1) Value of new loans made or received during the fiscal year; plus

(2) Balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus

(3) Any interest subsidy, cash, or administrative cost allowance received.

Condition

During our audit for fiscal year 2009–10, we found that the Department of Housing and Community Development (HCD) reported to the Department of Finance (Finance) that it had more than $93 million in outstanding loans under the HOME Program. However, HCD had not yet completed a reconciliation of its accounting records to its loan records at the time it reported this information and, in fact, HCD expected its outstanding loan balance to increase. As a result, the amount included on the Schedule of Federal Assistance was potentially understated. In its corrective action plan, HCD indicated that it would identify the total amount of loans outstanding and complete its reconciliation by May 31, 2011.

During our current audit, we found that HCD has yet to complete the reconciliation of its accounting records to its loan records for the HOME Program. In fact, according to the fiscal and policy manager for the HOME Program, HCD's loan records reflected a balance of $108.4 million whereas its accounting records reflected a balance of $111.3 million, a difference of $2.9 million. Consequently, the amount of outstanding loans HCD reports to Finance for fiscal year 2010–11 may not be accurate. The HOME Program branch chief stated that HCD expects to complete its reconciliation to identify the total amount of outstanding loans by May 31, 2012.

Questioned Costs

No specific questioned costs identified.

Recommendation

Housing should continue with its efforts to identify the total amount of loans outstanding under the HOME Program.

Department's View and Corrective Action Plan

HCD stated that it will complete its reconciliation to identify the total amount of outstanding loans by May 31, 2012. HCD also indicated that over 95 percent of the loans have already been reconciled.

Reference Number:	2011-12-5
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Numbers and Years:	M10-SG060100; 2010 M09-SG060100; 2009 M08-SG060100; 2008 M07-SG060100; 2007 M06-SG060100; 2006
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development (HCD)

Criteria

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 135—ECONOMIC OPPORTUNITIES FOR LOW- AND VERY LOW-INCOME PERSONS, Subpart A—General Provisions, Section 135.3—Applicability

(a) Section 3 covered assistance. Section 3 applies to the following HUD assistance (section 3 covered assistance):

(2) Housing and community development assistance. Section 3 applies to training, employment, contracting and other economic opportunities arising in connection with the expenditure of housing assistance (including section 8 assistance, and including other housing assistance not administered by the Assistant Secretary of Housing) and community development assistance that is used for the following projects;

(i) Housing rehabilitation (including reduction and abatement of lead-based paint hazards, but excluding routine maintenance, repair and replacement);

(ii) Housing construction; and

(iii) Other public construction.

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 135—ECONOMIC OPPORTUNITIES FOR LOW- AND VERY LOW-INCOME PERSONS, Subpart E—Reporting and Recordkeeping, Section 135.90—Reporting

Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3. Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report. If the program providing the section 3 covered assistance does not require an annual performance report, the section 3 report is to be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. All reports submitted to HUD in accordance with the requirements of this part will be made available to the public.

Form HUD-60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons, Instructions

Part II: Contract Opportunities

Block 1: Construction Contracts
Item A: Enter the total dollar amount of all contracts awarded on the project/program.

Block 2: Non-Construction Contracts
Item A: Enter the total dollar amount of all contracts awarded on the project/program.

Condition

HCD did not ensure that the Section 3 Summary Report (summary report) for fiscal year 2009–10 it submitted to the U.S. Department of Housing and Urban Development (HUD) was accurate and complete. Specifically, HCD understated the total dollar amount of construction contracts awarded in the summary report by $19.3 million, or 35 percent, related to three subgrantees. Additionally, it incorrectly classified construction contracts totaling $2.0 million as nonconstruction contracts for one of these three subgrantees.

Questioned Costs

No specific questioned costs identified.

Recommendations

HCD should ensure that it accurately compiles contract data submitted by subgrantees in its summary report to HUD. Further, HCD should consult with HUD to determine whether it should submit a corrected summary report for fiscal year 2009–10.

Department's View and Corrective Action Plan

The HOME Program implemented the following corrective improvements during 2011 to ensure the accurate collection and compiling of data and the accuracy of the subsequent 2010–11 fiscal year report submitted to HUD:

- Fields for contractor's names and the execution date were added to the forms.
- Duplicate forms were removed from the submitted reports prior to data entry.
- Errors identified during verification were returned to the original entry staff and verification is repeated once all corrections are complete.
- Management is completing a full verification of each form and line of data entry as well as the final report submitted to HUD.
- Verification of all submitted electronic reports against those approved by staff and entered in spreadsheets was added to the process to eliminate missed reports.

- Adjustments to the programming of the reports that produce the Active Contracts and Section 3 Required Lists were made to ensure inclusion of all contracts.

In addition, HOME management capacity was strengthened when the HOME section Chief position was filled on January 1, 2010. The position had been vacant at the time the 2009–10 report was prepared. The HOME Section Chief will prepare an additional detailed review of the accuracy of the 2011–12 report, and subsequent reports, prior to filing with HUD.

By March 31, 2012, HCD will consult with HUD to determine whether it should submit a corrected summary to report for fiscal year 2009–10.

Reference Number:	2011-13-15
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grants, State's Program (CDBG)
Federal Award Number and Year:	B-10-DC-06-0001; 2010
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 570—COMMUNITY DEVELOPMENT BLOCK GRANTS, Subpart I—State Community Development Block Grant Program, Section 570.492—State's Reviews and Audits

(a) The state shall make reviews and audits, including on-site reviews, of units of general local government as may be necessary or appropriate to meet the requirements of section 104(e)(2) of the Act.

Condition

During our audit for fiscal year 2009–10, we found that Housing did not complete an adequate number of site visits to ensure that its subrecipients were complying with program requirements. Specifically, Housing completed only 16 of 40 scheduled site visits. We also noted that these site visits were not always focused on projects identified by Housing as having the highest risk. In response to this finding, Housing stated that it will continue to improve its monitoring process. Beginning June 30, 2011, the CDBG section will complete a risk-based review of all active jurisdictions—those who have active contracts—by December 30 of each year to determine the 15 highest risk jurisdictions and monitor them.

However, we found that Housing completed only one monitoring site visit in fiscal year 2010–11. Furthermore, it has not yet developed a monitoring schedule based on a completed risk assessment. As a result, Housing cannot ensure that subrecipients are complying with federal laws, regulations, and provisions of grant agreements. According to the CDBG section chief, program staff is in the process of completing a risk-based review of all active jurisdictions to determine the 15 highest risk jurisdictions to be included in the program's monitoring schedule for fiscal year 2011–12. He indicated that Housing plans to complete the 15 monitoring site visits by December 30, 2011.

Questioned Costs

No specific questioned costs identified.

Recommendations

To ensure that it provides adequate monitoring over its subrecipients, Housing should develop and adhere to a site-visit monitoring schedule. To improve the efficiency of its reviews, Housing should continue to focus on performing site visits of projects that pose the highest risk of noncompliance with federal requirements.

Department's View and Corrective Action Plan

The CDBG Section will continue to improve its monitoring process. The CDBG has completed a risk-based review of all active jurisdictions (those who have active contracts) and identified the 15 highest risk jurisdictions. Further, the CDBG Section has developed a Monitoring Schedule and all 15 identified jurisdictions have been scheduled, with the completion of this year's Monitoring Schedule to be done by March 31, 2012. The CDBG Section will follow the same process for the monitoring schedule for calendar year 2012.

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U.S. DEPARTMENT OF JUSTICE

Reference Number:	2011-1-4
Federal Catalog Number:	16.606
Federal Program Title:	State Criminal Alien Assistance Program (SCAAP)
Federal Award Number and Year:	2010-AP-BX-0211; 2010
Category of Finding:	Activities Allowed, Allowable Costs
State Administering Department:	Department of Corrections and Rehabilitation (Corrections)

Criteria

TITLE 8—ALIENS AND NATIONALITY, CHAPTER 12—IMMIGRATION AND NATIONALITY, SUBCHAPTER II—IMMIGRATION, Part IV—Inspection, Apprehension, Examination, Exclusion, and Removal, Section 1231—Detention and Removal of Aliens Ordered Removed

(i) Incarceration

(1) If the chief executive officer of a State (or if appropriate, a political subdivision of the State) exercising authority with respect to the incarceration of an undocumented criminal alien submits a written request to the Attorney General, the Attorney General shall, as determined by the Attorney General—

(A) enter into a contractual arrangement which provides for compensation to the State or a political subdivision of the State, as may be appropriate, with respect to the incarceration of the undocumented criminal alien; or

(B) take the undocumented criminal alien into the custody of the Federal Government and incarcerate the alien.

(3) For purposes of this subsection, the term "undocumented criminal alien" means an alien who—

(B)(i) entered the United States without inspection or at any time or place other than as designated by the Attorney General;

(ii) was the subject of exclusion or deportation proceedings at the time he or she was taken into custody by the State or political subdivision of the State; or

(iii) was admitted as a nonimmigrant and at the time he or she was taken into custody by the State or a political subdivision of the State has failed to maintain the nonimmigrant status in which the alien was admitted or to which it was changed under Section 1258 of this title, or to comply with the conditions of any such status.

Condition

In our prior year audit, we reported that Corrections submitted ineligible inmate data in its federal fiscal year 2009 application for SCAAP funding. Specifically, Corrections' application included nearly 2,000 additional records in instances where an inmate had more than one alien registration number for the same incarceration period. We also reported that our review of 29 inmate records that Corrections submitted found that it had information in its files indicating 10 of these inmates were either U.S. citizens or permanent residents. In its corrective action plan for that fiscal year, Corrections stated that it will continue to partner with the U.S. Department of Justice–Bureau of Justice Assistance and the U.S. Immigration and Customs Enforcement to ensure that it is presenting its application in a manner that complies with federal standards.

During our follow-up procedures, Corrections confirmed that it has not revised its procedures for submitting the application for SCAAP funding. It indicated that the U.S. Department of Justice is revising the application process for SCAAP funding and that it is waiting for further directions before changing its application procedures. However, a policy advisor from the U.S. Department of Justice stated that the potential changes in the 2012 SCAAP application will not impact the application process or the grantee certifications, and that inmates should only be reported with a single, correct alien registration number. Because Corrections did not revise its procedures for submitting the federal fiscal year 2010 application for SCAAP funding, it cannot be sure that it did not include ineligible inmate data.

Questioned Costs

No specific questioned costs identified.

Recommendation

Corrections should work with U.S. Immigration and Customs Enforcement to ensure that it submits eligible inmate data in its application for SCAAP funding.

Department's View and Corrective Action Plan

Corrections has initiated contact with the Department of Homeland Security (DHS)/U.S. Immigration and Customs Enforcement (USICE) and has begun discussions to investigate the feasibility for establishing a process for verifying the Corrections' inmate alien numbers prior to the submission for the SCAAP grant application. Corrections hopes to establish a routine process with DHS/USICE to obtain valid inmate alien numbers and citizenship status for all Corrections' inmates. This process will allow Corrections to collect the alien numbers for all inmates and incorporate this data into Corrections' databases. Corrections believes by initiating discussions with DHS/USICE, it is demonstrating due diligence in faithfully completing our submittal of eligible inmate data as prescribed by the guidelines established by the Bureau of Justice Assistance for the SCAAP grant application.

U.S. DEPARTMENT OF LABOR

Reference Number:	2011-1-5
Federal Catalog Numbers:	17.225, 17.258, 17.259, 17.260
Federal Program Title:	Unemployment Insurance (UI), Workforce Investment Act (WIA) Cluster: WIA Adult Program, WIA Youth Activities, WIA Dislocated Workers
Federal Award Numbers and Years:	UI-21088-11-55-A-6; 2010 UI-19571-10-55-A-6; 2009 AA-20183-10-55-A-6; 2010 AA-18628-09-55-A-6; 2009
Category of Finding:	Activities Allowed, Eligibility, Reporting
State Administering Department:	Employment Development Department (EDD)

Condition

The Employment Development Department (EDD) had weak general controls over its information systems for fiscal year 2010-11. For details see finding reference number 2011-15-2 in the Internal Control and Compliance Issue Applicable to the Financial Statements and State Requirements section on page 19.

Questioned Costs

No specific questions costs identified.

Reference Number:	2011-14-6
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance (UI)
Federal Award Numbers and Years:	UI-21088-11-55-A-6; 2010 UI-19571-10-55-A-6; 2009
Category of Finding:	Special Tests and Provisions
State Administering Department:	Employment Development Department (EDD)

Criteria

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

(a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.

Condition

In our audit reports for fiscal years 2008–09 and 2009–10, we reported that EDD had not updated its financial management systems to allow it to separately identify and report on Recovery Act funds expended for certain benefits paid under the UI program. Specifically, we found that for fiscal year 2008–09, EDD could not separately identify or report on Recovery Act funds expended for the Emergency Unemployment Compensation (EUC) program or the Federal-State Extended Benefits (Fed-Ed) program. We noted that EDD could identify Recovery Act expenditures for the Federal Additional Compensation (FAC) program because it was entirely funded by the Recovery Act. Similarly, our follow-up procedures for fiscal year 2009–10 revealed that EDD still could not separately identify or report on Recovery Act expenditures for the EUC and Fed-Ed programs. Furthermore, we determined that EDD could no longer separately identify and report on Recovery Act expenditures for the FAC program because it was no longer entirely funded by the Recovery Act. In both fiscal years EDD agreed with our findings and stated that it intended to update its financial management systems. EDD initially hoped to complete the update of its financial management system by March 2010 but later revised the time frame to early 2012.

During our follow-up procedures for fiscal year 2010–11, we confirmed that EDD was still in the process of updating its financial management systems to separately identify and report on Recovery Act funds. OMB's Circular A-133 Compliance Supplement dated March 2011 regarding special tests and provisions for awards with Recovery Act funding, indicates that the financial management system must permit the preparation of required reports and the tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs. Additionally, according to a program letter provided by the U.S. Department of Labor, some unemployment benefit payments should be reported separately as Recovery Act expenditures. However, EDD's financial management systems do not separately identify Recovery Act funds from non–Recovery Act funds.

During fiscal year 2010–11, the UI program expended $21 billion, which included both Recovery Act and non–Recovery Act funds. Of the several types of unemployment benefit programs, the EUC, Fed–Ed, and FAC programs expended Recovery Act funds. In fiscal year 2010–11 EDD spent $12.2 billion on these programs. However, since EDD is unable to separately identify Recovery Act funds, it cannot identify what portion of the total expenditures for these three programs were paid for with Recovery Act funds.

As discussed in our 2009–10 audit report, EDD was unable to begin separately identifying Recovery Act funds when planned due to changes in federal legislation that required high-priority modifications in programming related to benefit extensions and payments. At that time, an EDD division chief stated that, in the absence of new federal legislation changing benefit extensions and payments, EDD intended to have the issue fully corrected by early 2012. In July 2011, EDD provided a status report to the U.S. Department of Labor that explained the delays it has experienced as it attempts to reprogram its system to separately identify Recovery Act funds and reiterated its plans to fully correct the finding. In its response, the U.S. Department of Labor indicated that it considered the finding corrected.

However, on August 31, 2011, another division chief stated that EDD's plans to complete the programming changes necessary to separately account for Recovery Act funds by early 2012 have been delayed because of resource and scheduling conflicts and will not be fully implemented until mid-2013. Thus, EDD cannot account for its Recovery Act expenditures for the EUC, Fed-Ed, and FAC programs components separately until that time.

Questioned Costs

No specific questions costs identified.

Recommendation

EDD should continue its efforts to update its financial management systems so that it can separately identify Recovery Act expenditures from non-Recovery Act expenditures.

Department's View and Corrective Action Plan

EDD concurs with the recommendation stated. However, it added that EDD can and has been reporting all the benefits paid by each federal extension. The audit finding pertains to the inability to identify which federal extension payments should be charged to the different federal accounts. Benefits paid to Unemployment Insurance claimants have been accounted for and reported on by EDD.

As discussed in the August 31, 2011 meeting, the work to complete the programming needed to separately identify Recovery Act funds will be prioritized after the database conversion planned for November 2011. In preparation for the conversion, a freeze on all program changes has been implemented from August 15, 2011 through December 15, 2011. When the code freeze is lifted, the department will prioritize the outstanding work, including the report changes.

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U.S. DEPARTMENT OF TRANSPORTATION

Reference Number:	2011-13-14
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction
Federal Award Numbers and Years:	N4520.208; 2011 N4520.207; 2010 N4520.206; 2010 N4510.705; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	California Department of Transportation (Caltrans)

Criteria

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

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

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

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

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

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

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

(b) Withholding or disallowing overhead costs;

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

(d) Terminating the Federal award.

Condition

Subrecipient Audits

As we reported in fiscal year 2009–10, Caltrans continues to lack internal controls to ensure subrecipients who spent $500,000 or more during fiscal year 2009–10 submitted audit reports to the federal government as required under OMB Circular A-133. Based on Caltrans' records of the amounts it disbursed to subrecipients, it could have established reasonable expectations as to which subrecipients would need to submit audit reports. In response to the finding reported in our fiscal

year 2009–10 audit report, Caltrans stated it developed written policies and procedures to determine whether subrecipients submit their single audit reports timely and impose sanctions on those that are delinquent.

Although we confirmed that Caltrans developed these policies and procedures, it did not fully implement them. For example, during the fiscal year 2010–11 audit we identified instances where subrecipients receiving $500,000 or more—and, according to Caltrans' records, in some cases more than $1 million —did not submit audit reports to the federal government. Specifically, we identified 12 subrecipients (including various cities, counties, and special districts) as having no record of an audit submission to the federal government for fiscal year 2009–10. Subrecipients with a fiscal year ending on June 30, 2010, were required to submit their audit reports to the federal government nine months after the end of the fiscal year, which would have been March 31, 2011. When subrecipients fail to submit audit reports to the federal government, federal agencies miss an opportunity to identify where federal funds might be misspent.

Management Decisions

The failure of subrecipients to submit audit reports also limits Caltrans' ability to review and issue management decisions on potential findings and exercise effective oversight of the Highway Planning and Construction program. To facilitate the State's preparation of management decisions on its subrecipients' audit findings, the State has established a process whereby local governments submit copies of their OMB Circular A-133 audit reports to the State Controller's Office (SCO). According to the *State Administrative Manual*, Section 20070, the SCO distributes a copy of each audit report and corrective action plan to state entities (such as Caltrans) that are affected by the findings, and such state entities follow up on audit findings pertaining to the federal programs they administer. To assist with its responsibilities, Caltrans provides the SCO with an annual listing of all of its subrecipients and the amounts of federal funds they received. Caltrans provided the SCO with the amounts it disbursed to its subrecipients on August 30, 2011. When the SCO receives audit reports from subrecipients, it updates its list to indicate which subrecipients have or have not submitted their audit reports. As of November 15, 2011, the SCO's Web site indicated the following information for certain Caltrans' subrecipients.

- Two subrecipients had either submitted incomplete audit reports, or had not submitted any audit reports, and the SCO was no longer going to follow up with those entities.
- Six subrecipients were classified by the SCO as "exempt" from the audit requirements because they spent less than $500,000.
- Eight subrecipients were classified by the SCO as "no review" because SCO concluded after reviewing the audit reports that no funds had passed through state entities (such as Caltrans).

Based on our review, the SCO's data—identifying certain subrecipients as having an "exempt" or "no review" status—was in conflict with Caltrans' records that indicated it disbursed $500,000 or more to these subrecipients. However, despite internal procedures that direct Caltrans staff to notify the SCO of any discrepancies, we determined that during the course of our review Caltrans did not follow up with the SCO to verify that the information was correct.

Questioned Costs

No specific questioned costs identified.

Recommendations

Caltrans should fully implement policies and procedures to ensure that subrecipients promptly submit required audit reports, and impose sanctions on those that do not.

Department's View and Corrective Action Plan

Caltrans indicated that it has further refined its policies and procedures to ensure its subrecipients submit their single audit reports timely. For example, Caltrans indicated it will reconcile the audit submissions on the federal and SCO's Web sites to its own records of subrecipients that received $500,000 or more and will continue to follow up on and impose sanctions on noncompliant subrecipients.

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U.S. DEPARTMENT OF VETERANS AFFAIRS

Reference Number:	2011-12-6
Federal Catalog Number:	64.114
Federal Program Title:	Veterans Housing—Guaranteed and Insured Loans
Federal Award Number and Year:	None; State fiscal year 2010–11
Category of Finding:	Reporting
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

TITLE 38—PENSIONS, BONUSES, AND VETERANS' RELIEF, PART 36—LOAN GUARANTY, Subpart F—Guaranty or Insurance of Loans to Veterans with Electronic Reporting, Section 36.4817—Servicer Reporting Requirements

(a) Servicers of loans guaranteed by the Secretary shall report the information required by this section to the Secretary electronically. The Secretary shall accept electronic submission from each entity servicing loans guaranteed under 38 U.S.C. Chapter 37 not later than the effective date of this rule.

(c) Servicers shall report to the Secretary the following specific loan events in accordance with the time frames described for each event. Unless otherwise specified herein, the servicer shall report these events on a monthly basis (i.e., no later than the seventh calendar day of the month following the month in which the event occurred) only for delinquent loans in its portfolio.

(7) Electronic Default Notification (EDN)—when the loan becomes at least 61 days delinquent. The servicer shall report this event no later than the seventh calendar day from when the event occurred. The servicer shall report this event only once per default for delinquent loans in its portfolio.

(11) Bankruptcy filed—when any owner files a petition under the Bankruptcy Code. The servicer shall report this event no later than the seventh calendar day from when the event occurred. The servicer shall report this event only on delinquent loans in its portfolio, if appropriate, or with the EDN when it is reported.

(13) Loss mitigation letter sent—when the servicer sends the loss mitigation letter to the borrower as required by Section 36.4850(g)(1)(iv).

(15) Default cured/loan reinstated—when a previously reported default (i.e., an EDN was filed) has cured/loan reinstated.

(16) Default reported to credit bureau—when the servicer notifies the credit bureaus of a defaulted loan or loan termination. The servicer shall report this event only on delinquent loans in its portfolio, and shall report the first occurrence only.

(17) Repayment plan approved—when the servicer approves a repayment plan.

(21) Compromise sale complete—when a compromise sale closes.

(23) Foreclosure referral—when the loan is referred to legal counsel for foreclosure. The servicers shall report this no later than the 7th calendar day from when the event occurred.

Condition

Veterans Affairs, as part of its administration of the loan guaranty program, is approved by the U.S. Department of Veterans Affairs (VA) to offer VA-guaranteed home loans to eligible veterans. Since November 2008 the VA requires loan servicers, such as Veterans Affairs, to electronically report to the VA specific events related to loans that have been issued a VA guarantee. Federal regulations require that events be reported to the VA within the first seven calendar days of the following month, or in certain instances, within seven days of the event itself. Late reporting may hinder the VA's ability to take appropriate oversight action on delinquent loans.

During our audit for fiscal year 2009–10, we reviewed a sample of 25 loans that were delinquent and found that Veterans Affairs did not always report bankruptcies, loss mitigation, foreclosure referrals, compromise sales, loan defaults, and the approval of a repayment plan to the VA within the applicable reporting deadlines. We also reported that in response to our audit report for fiscal year 2008–09, Veterans Affairs established a process in March 2010 to report to the VA as required when it notifies the credit bureaus of delinquent loans. However, we found that although it established this process, it still inconsistently reported this information to the VA. Finally, we also reported that Veterans Affairs lacked a process to use information in its system to determine which borrowers no longer have delinquent payments and therefore have cured their default. By not reporting cured defaults, the VA's reporting system continues to inaccurately show these loans in default.

During our prior year review, Veterans Affairs used a manual process to report most of the events for which we noted late reporting. In its corrective action plan for that year, Veterans Affairs indicated that the automation of the reporting requirement is a management priority and should resolve all noted issues. It stated that it has been working on this automation project and anticipated the system would be in place by March 31, 2011.

During our current audit, we determined that Veterans Affairs still has not fully addressed this finding. Specifically, Veterans Affairs indicated that the weekly reporting of information to the VA and the automation of most of the reporting requirements did not occur until July 2011. This included the automatic reporting to the VA of the repayment plan agreements, bankruptcies, and loss mitigation letters. Further, according to the property agent, Veterans Affairs is still testing the automatic reporting of compromise sales and it is manually reporting these events to the VA until the testing is completed. However, Veterans Affairs indicated that it was able to complete its project to automate its reporting of credit bureau notifications to the VA during fiscal year 2010–11. As such, we selected 24 delinquent loans it reported to the credit bureaus during fiscal year 2010–11 to determine whether Veterans Affairs appropriately notified the VA. Our review found that Veterans Affairs failed to report seven of these delinquent loans to the VA and reported another 11 of them between one and five days after the reporting deadline. According to Veterans Affairs, it failed to report the seven delinquent loans because of an undetected interruption in reporting during the automation of other processes, which it has not corrected.

Questioned Costs

No specific questions costs identified.

Recommendations

Veterans Affairs should complete its automation project and, once the system is fully in place it should ensure that the system allows it to report all required events to the VA by the applicable deadlines.

Department's View and Corrective Action Plan

The Department of Veterans Affairs agrees that some non-essential but required data was not reported according to the time frames required in the VA servicer manual. As stated in the report, no reporting exceptions were found for any items that would have any potential impact on its ability to collect claimed funds and no violations have been cited by VA.

Veterans Affairs is continuing with the development of the automated bulk upload file since this project will help Veterans Affairs meet VA reporting requirements. As noted by the Auditor such processes as repayment plan agreements, bankruptcies, and loss mitigation letters have been integrated into the automated bulk upload file. In addition, the reporting of accounts, which have cured their delinquencies, has also been implemented.

Regarding notification to the VA the reporting of credit bureau reporting, the move to a weekly reporting schedule should eliminate this finding. As noted by the Auditor, this schedule did not commence until July 2011. The seven delinquent loans, which were not reported to USDVA as reported to the Credit Bureaus, occurred during the period of time at the end of fiscal year 2010–11, and was a one-time event. At that time there was an undetected interruption in the reporting of Credit Bureau reports. It appears this occurred during implementation of other processes in the automation of the bulk upload. After discovery, the issue was corrected and normal reporting was resumed.

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U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2011-13-1
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Federal Award Numbers and Years:	7CA700CA7; 2011 7CA700CA7; 2010 7CA700CA1; 2011 7CA700CA1; 2010 7CA700CA2; 2011
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 7—AGRICULTURE—SUBPART B—REGULATIONS OF DEPARTMENT OF AGRICULTURE—Part 246—Special Supplemental Nutrition Program for Women, Infants and Children, Subpart F—Monitoring and Review, Section 246.19—Management Evaluation and Monitoring Reviews, (b) State Agency Responsibilities

(1) The state agency shall establish an ongoing management evaluation system, which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans to resolve program deficiencies, the monitoring of the implementation of corrective action plans, and onsite visits. The results of such actions shall be documented.

(2) Monitoring of local agencies must encompass evaluation of management, certification, nutrition education, participant services, civil rights compliance, accountability, financial management systems, and food delivery systems. If the state agency delegates the signing of vendor agreements, vendor training, or vendor monitoring to a local agency, it must evaluate the local agency's effectiveness in carrying out these responsibilities.

(3) The state agency shall conduct monitoring reviews of each local agency at least once every two years. Such reviews shall include onsite reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater. The state agency may conduct such additional onsite reviews as the state agency determines to be necessary in the interest of the efficiency and effectiveness of the program.

(4) The state agency must promptly notify a local agency of any finding in a monitoring review that the local agency did not comply with program requirements. The state agency must require the local agency to submit a corrective action plan, including implementation time frames, within 60 days of receipt of a state agency report of a monitoring review containing a finding of program noncompliance. The state agency must monitor local agency implementation of corrective action plans.

Condition

During procedures performed over during-the-award monitoring, we noted that Public Health performs Program Evaluations (PE) that take place for all local agencies every two years. For issues identified during this review, the agency is required to submit a corrective action plan (CAP) within 60 days of receipt of the finding letter. In our sample of 25 completed reviews, we noted the following:

- For one of the 25 reviews selected, we noted the CAP was submitted by the local agency 69 days after the receipt of the letter of finding which was not within the required 60 days.

Without properly designed processes and controls in place to obtain and review the required CAPs, there is increased risk that subrecipient agencies may not be complying with federal program rules and regulations. Amounts paid to subrecipients totaled $173 million of the $1,279 million total WIC program expenditures for the fiscal year ended June 30, 2011.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should implement controls for following up on findings related to the PEs.

Department's View and Corrective Action Plan

Public Health agrees with the finding that it must have properly designed processes and controls in place to obtain and review the required CAPs and has implemented controls for following up on findings related to the Program Evaluations (PE). In 24 of the 25 reviews selected, Public Health received a CAP from subrecipient agencies within the required 60-day time frame. To ensure that Public Health receives 100 percent of all CAPs within the 60-day time frame, WIC has implemented the following control measures:

Effective October 1, 2011, Regional Advisors (RA) within the Local Agency Support Branch flag the date when the Program Evaluation and Policy Branch sends the Letter of Findings (LOF) to the subrecipient agency. Using a tickler system, the RA sends a 30-day "reminder" email to those agencies that have not already submitted a CAP. If an agency has not submitted a CAP within two weeks of the 60-day due date, the RA will call the local agency director to reinforce the federal requirement and document the call in the local agency file. In addition, the RA will notify their supervisor for any additional guidance or follow up action to consider.

Reference Number:	2011-14-1
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Federal Award Numbers and Years:	7CA700CA7; 2011 7CA700CA7; 2010 7CA700CA1; 2011 7CA700CA1; 2010 7CA700CA2; 2011
Category of Finding:	Special Tests and Provisions—Authorization of Above-50-Percent Vendors
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 7—AGRICULTURE—SUBPART B—REGULATIONS OF DEPARTMENT OF AGRICULTURE—Part 246—Special Supplemental Nutrition Program for Women, Infants and Children, Food Delivery System—Vendor Selection Criteria: competitive prices, 246.12 (g)(4)

The state agency must establish a vendor peer group system, distinct competitive price criteria, and allowable reimbursement levels for each peer group. The State agency must use the competitive price criteria to evaluate the prices a vendor applicant charges for supplemental foods as compared to the prices charged by other vendor applicants and authorized vendors, and must authorize vendors selected from among those that offer the program the most competitive prices. The State agency must consider a vendor applicant's shelf prices or the prices it bids for supplemental foods, which may not exceed its shelf prices. In establishing competitive price criteria and allowable reimbursement levels, the State agency must consider participant access by geographic area.

Condition

During procedures performed over Authorization of Above 50-Percent Vendors (A50), we noted that Public Health performs a Vendor Price Analysis (VPA) as a part of the vendor authorization and re-authorization process. The VPA determines whether vendors have competitive pricing on food products so that the amounts charged do not exceed the maximum allowable reimbursement rate (MADR). MADR rates are determined based on the vendor peer groups and are evaluated periodically using redemption data for all vendors in that peer group. MADR rates for A50 vendors are based on the average redemption price for all food instruments for that food type redeemed at all non A50 vendors statewide. In our sample of 65 A50 vendors, we noted that for one of the vendors selected, the VPA was run using the Peer Group 7, a non A50 vendor peer group. When the Food Price Survey was completed for the vendor, the vendor was improperly identified as belonging to Peer Group 7 rather than Peer Group 1, the peer group for A50 vendors.

Questioned Costs

No specific questioned costs identified.

Recommendations

Public Health should ensure policies and procedures are in place to ensure that vendors are appropriately classified to the correct peer group. Additionally, it should review this information to ensure that the VPA analysis is performed accurately, and correct peer group information is input into ISIS.

Department's View and Corrective Action Plan

Public Health agrees with the finding that WIC's Vendor Management Branch (VMB) staff should improve policies and procedures to ensure that vendors are appropriately classified to the correct peer group when performing a VPA, and that VMB staff should properly review a vendor's peer group assignment before entering the information into WIC's information system (ISIS).

WIC has procedures in place to assign a vendor to the correct peer group properly. In this instance, an analyst did not follow the procedures, and this error caused the analyst to conduct the VPA using an incorrect peer group. Further, staff did not identify the error during the routine review of the file. However, since VMB staff conducts an onsite store review prior to finalizing the store's authorization, staff was able to correct the peer group assignment in ISIS prior to the vendor becoming WIC-authorized to submit food instruments for reimbursement.

To improve this process, staff has modified the vendor authorization checklists to include a check-off box that requires the vendor analyst to re-check that staff is using the correct peer group when performing the VPA analysis and when conducting on-site vendor authorization visits.

WIC will train staff and fully implement this corrective action by December 1, 2011.

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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2011-1-1
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2010 1105CAARRA; 2011 1005CAARRA; 2010
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—*COST PRINCIPLES OF STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENT* (OMB Circular A-87), Attachment A—General Principles for Determining Allowable Costs, Part C—Basic Guidelines

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

(a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Condition

During our procedures performed over the Medi-Cal program, we reviewed the audit and investigation reports to the program that were published and released during the fiscal year ended June 30, 2011. The following is a summary of the findings cited in the fourth annual Medi-Cal Payment Error Study (MPES) performed during the calendar year 2009 (the most recent MPES study completed):

> "The sampling universe consists of Medi-Cal fee for service (FFS) claims paid through the fiscal intermediary, Hewlett Packard (formerly known as Electronic Data Systems), during the period of October 1, 2009, through December 31, 2009. There are 1,149 claims in the sample. The sample size was extracted from a universe of 25,236,902 Medi-Cal claims. Proportional allocation of the sample size was used to determine the sample size from each stratum ensuring a minimum sample size of 50 claims for each stratum.
>
> (The results of the MPES indicated that) 5.45 percent of the total dollars paid had some indication that they contained a provider payment error. The 5.45 percent equates to $1.07 billion of the total $16 billion in annual payments made for FFS medical and dental services in calendar year 2009, and represents the percentage of payment error attributable to Medi-Cal program dollars "at risk" of being paid inappropriately due to findings related to such factors as a lack of medical necessity, abuse, or fraud. Of the total payments, 1.16 percent, or $228 million, were for claims submitted by providers that disclosed characteristics of potential fraud.
>
> In the MPES 2009, 55.6 percent of all samples errors were medical necessity errors.

There were no claims processing errors identified.

Based on the error percentage related to Medi-Cal payments, the risk of noncompliance with allowable costs and activities is considered material. The total Federal expenditures for FFS claims during the fiscal year ended June 30, 2011, were $14.4 billion.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) granted additional funding to the State in the form of an enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures related to FFS claims during the fiscal year ended June 30, 2011, amounted to $2.5 billion.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should strengthen their internal controls to ensure only medically necessary claims are paid. Health Care Services should also strengthen their internal control process to prevent/detect potential provider fraud.

Department's View and Corrective Action Plan

Health Care Services is continuously engaged to strengthen the internal controls and ensure the medical necessity of all services rendered and paid. The findings from the MPES report are used to generate field audits of suspect providers and to confirm specific overpayments leading to recoveries. The Health Care Services' Medical Review Board (MRB) also places select providers on Post-Service Pre-Payment (PPM).

Formerly known as the Special Claims Review (SCR), the PPM is an audit of the medical necessity and the program coverage of services after they are given to the beneficiary but before DHCS reimburses the provider. MRB may impose the PPM when the provider has submitted improper or incorrect claims. Under PPM, Health Care Services may deny payment for claims that are not covered benefits or that are deemed medically unnecessary. While on PPM, the provider is prohibited from electronic billing and is required to submit hard copy (manual) claims with copies of medical documentation to substantiate the medical necessity and the actual provision of the service claimed.

The detection of provider fraud is an ever-evolving science. MRB employs multiple techniques to detect, identify, and pursue fraudulent claims. These methodologies include monitoring for billing spikes, audits of the outlier billers, random claim reviews, and computer-generated suspect lists based on a multifactorial program. The newest technology that we are exploiting is link analysis to enable us to pursue the peripheral contacts of known fraudulent providers.

Reference Number:	2011-1-2
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2010 1105CAARRA; 2011 1005CAARRA; 2011
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—*COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENT* (OMB Circular A-87), Attachment A—General Principles for Determining Allowable Costs, Part C—Basic Guidelines

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

(a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

CALIFORNIA CODE OF REGULATIONS, TITLE 22, Section 51476

- Each provider shall keep, maintain, and have readily retrievable, such records as are necessary to fully disclose the type and extent of services provided to a Medi-Cal beneficiary. Required records shall be made at or near the time at which the service is rendered.

DEPARTMENT OF HEALTH SERVICES PROVIDER MANUAL—PROVIDER REGULATIONS

- Medi-Cal requires providers to agree to keep necessary records for a minimum period of three years from the date of service to disclose fully the extent of services furnished to the patient. The provider also must agree to furnish these records and any information regarding payments claimed for providing the services, on request, to the California Department of Health Services.

Condition

In our procedures performed over expenditures charged to the program, we selected a sample of fee-for-service (FFS) claims and utilized Health Care Services' Medical Review Branch of trained medical professionals to ascertain that each expenditure was for an allowable service rendered and was supported by medical records or other evidence, indicating that the service was actually provided and consistent with the medical diagnosis. In our sample of 50 FFS claims, six did not appear to be for an allowable service. These exceptions are noted as follows:

- Two claims were not deemed medically necessary.

- Four claims did not have sufficient supporting documentation to support whether the required medical procedures were rendered on the beneficiary.

Total exceptions amounted to $11,865 of the total $147,421 sampled of federal Medicaid expenditures for FFS claims. Total federal Medicaid expenditures for FFS claims amounted to $14.4 billion for the fiscal year ended June 30, 2011.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) granted additional funding to the State in the form of an enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures related to FFS claims during the fiscal year ended June 30, 2011, amounted to $2.5 billion. The total exceptions amounted to $2,076 of the total $27,123 Recovery Act expenditures for FFS claims.

Questioned Costs

$11,865 of the $147,421 FFS expenditures sampled and $2,076 of the $27,123 Recovery Act expenditures sampled for fiscal year ended June 30, 2011.

Recommendations

Health Care Services should strengthen its internal controls to ensure only medically necessary claims and eligible providers are paid. Health Care Services should also strengthen its internal control process to detect providers in violation of record retention rules.

Department's View and Corrective Action Plan

Health Care Services is continuously engaged to strengthen the internal controls to ensure the medical necessity of all services rendered and paid. The findings from the Medi-Cal Payment Error Study (MPES) report are used to generate field audits of suspect providers and to confirm specific overpayments leading to recoveries. It should be noted that the sequential findings MPES report reflect a *declining* rate of Medi-Cal fraud, waste, and abuse.

The regulations governing record retention in general require providers to retain their records for medial justification for a minimum of three years:

Record Keeping and Retention—Provider agrees to make, keep, and maintain in a systematic and orderly manner, and have readily retrievable, such records as are necessary to fully disclose the type and extent of all services, goods, supplies, and merchandise provided to Family PACT beneficiaries, including, but not limited to, the records described in Section 51476 of Title 22, California Code of Regulations and the records described in Section 431.107 of Title 42 of the Code of Federal Regulations. Provider further agrees that such financial records shall be made at or near the time at which the services, goods, supplies, and merchandise are delivered or rendered, and that such records shall be retained by Provider in the form in which they are regularly kept for a period of three years from the date the goods, supplies, and merchandise were delivered or the services rendered.

Health Care Services' Medical Review Branch continuously audits suspect providers with an emphasis on the documentation to support the medical necessity of rendered services. Providers who cannot substantiate the medical necessity of the rendered service are subject to audits for recovery. Health Care Services' Medical Review Branch recovered $42,332,914 in the first half of 2011.

Reference Number:	2011-2-1
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2010 1105CAARRA; 2011 1005CAARRA; 2010
Category of Finding:	Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 19, SOCIAL SECURITY ACT—GRANTS TO STATE FOR MEDICAL ASSISTANCE PROGRAMS, Section 1927—Payment for Covered Outpatient Drugs

(b) Terms of Rebate Agreement

(2) State Provision of Information:

(A) State Responsibility. Each State agency under this title shall report to each manufacturer not later than 60 days after the end of each rebate period and in a form consistent with a standard reporting format established by the Secretary, information on the total number of units of each dosage form, strength and package size of each covered outpatient drug dispensed after December 31, 1990, for which payment was made under the plan during the period, and shall promptly transmit a copy of such report to the Secretary.

Condition

Drug manufacturers/labelers are required to provide a listing to the Centers for Medicare and Medicaid Services (CMS) of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based upon this data, CMS calculates a unit rebate amount for each drug and provides the rebate information to the States. The state Medicaid Agency is required to provide to drug manufacturers/labelers the drug utilization data no later than 60 days after the end of the quarter. We tested 40 rebate invoices related to the third and fourth quarters of 2010, as well as the first and second quarters of 2011 and noted the following:

- Health Care Services provided the unit rebate amount for the third quarter 2010 (July to September 2010) drug data on December 02, 2010, which is three days late. Drug utilization data had to be mailed to the labelers by the state Medicaid Agency on November 29, 2010.

- Health Care Services provided the first quarter 2011 (January to March 2011) drug data on May 31, 2011, which is one day late. Drug utilization data had to be mailed to the labelers by the state Medicaid Agency on May 30, 2011.

The total combined federal and state drug rebates for the third quarter of 2010 and first quarter of 2011 amounted to $159,011,283 and $427,717,086, respectively (total of $586.7 million). As a result from this audit finding, there was an increase in the risk that the State would not obtain the $586.7 million due in a timely manner. In addition, the State potentially missed an opportunity to earn interest on these funds. However, the labelers have the drug pricing information related to the average wholesale prices and they continue to pay the rebate amount.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) granted additional funding to the State in the form of an enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures during the fiscal year ended June 30, 2011, amounted to $5 billion. The lack of timely submission of the drug rebates potentially causes a missed opportunity to earn interest on these funds.

Questioned Costs

No specific questioned costs identified.

Recommendations

Health Care Services should ensure that drug utilization data are provided to drug manufacturers/labelers on a timely basis (i.e. no later than 60 days at the end of the quarter) and to proactively monitor the receipt of payment from labelers.

Department's View and Corrective Action Plan

Health Care Services proactively monitors and diligently works towards ensuring that drug utilization reports are mailed to the drug manufacturers within 60 days after the end of each quarter. Health Care Services has modified the Rebate Accounting and Information System to allow the invoicing process to

be more efficient and require less manual reviewing, thus allowing for the timely mailing of the invoices. However, recent events have impacted Health Care Services' ability to mail the utilization reports timely. We have noted the following as reasons for the findings noted above:

- The third quarter 2010 utilization reports were three days late in being mailed to the drug manufacturers as a result of the State directed furloughs required of Health Care Services employees.

- The first quarter 2011 utilization reports were one day late as a result of May 30, 2011, coinciding with a national holiday (Memorial Day). The reports were sent the next business day.

Reference Number:	2011-3-1
Federal Catalog Number:	93.268
Federal Program Title:	Immunization Grants
Federal Award Numbers and Years:	5H23IP922507-09; 2010 5H23IP922507-08; 2009
Category of Finding:	Cash Management
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 31—MONEY AND FINANCE: TREASURY, CHAPTER II—FISCAL SERVICE, DEPARTMENT OF THE TREASURY, PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL–STATE FUNDS TRANSFERS, Subpart A—Rules Applicable to Federal Assistance Programs Included in a Treasury–State Agreement, Section 205.11, What Requirements Apply to FundingTechniques?

(a) A state and a federal program agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the state's payout of funds for federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

Condition

During our procedures performed over Public Health's payments made to contractors, we noted that it requests cash advances (drawdowns) from the federal government and then requests payments to be made to contractors by the State Controller's Office (SCO). The program falls under the Cash Management Improvement Act (CMIA) with a required funding technique of preissuance for payments to contractors. The preissuance technique requires the State to disburse payments to contractors not more than three days after the advance is deposited in the state account.

In our sample of 65 drawdowns totaling approximately $17.3 million, we noted 17 drawdowns totaling approximately $7 million where the payments to the contractors were issued up to 21 days from the dates of the drawdown requests, which exceeds the three-day requirement per the CMIA agreement. Public Health indicated the delays were caused by the accounting department being unaware that the Immunization Grant was added to the CMIA agreement for the year ended June 30, 2011. By not issuing the warrants within three days from the dates of the drawdown requests, Public Health is not in compliance with the cash management requirements of the Immunization program.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should ensure policies and procedures are in place to ensure payments to contractors are issued within the three-day requirement of the federal draws.

Department's View and Corrective Action Plan

Public Health agrees and has modified its policies and procedures to ensure payments to contractors are issued within the three days of the Federal draws, per CMIA requirements.

Public Health's accounting section implemented a more efficient method of communicating when the federal funds are needed and the release of claim schedules. The accounting section verifies the timing of federal draws with claim schedule payments and provides status of when a claim schedule is to be held for corrections or additional processing before sending to the SCO. The accounting section does not draw the federal money until the claim schedule has been released to SCO.

On October 20, 2011, Public Health implemented the above corrective actions and have updated written procedures.

Reference Number:	2011-5-1
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778-03-01; 2011 X07HA12778-02-00; 2010
Category of Finding:	Eligibility, Activities Allowed/Allowable Costs
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XXIV—HIV HEALTH CARE SERVICES PROGRAM, Part B—Care Grant Program, Subpart I—General Grant Provisions, Section 300ff-26, Provision of Treatments

(b) *Eligible individual.* To be eligible to receive assistance from a State under this section, an individual must:

1. Have a medical diagnosis of HIV/AIDS; and
2. Be a low income individual, as defined by the State.

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XXIV—HIV HEALTH CARE SERVICES PROGRAM, Part B—Care Grant Program, Subpart I—General Grant Provisions, Section 300ff-22, Required Funding for Core Medical Services

(3) Core medical services

For purposes of this subsection, the term "core medical services," with respect to an individual infected with HIV/AIDS (including the co-occurring conditions of the individual) means the following services:

(A) Outpatient and ambulatory health services.

(B) AIDS Drug Assistance Program treatments in accordance with section 300ff–26 of this title.

(C) AIDS pharmaceutical assistance.

(D) Oral health care.

(E) Early intervention services described in subsection (d).

(F) Health insurance premium and cost sharing assistance for low-income individuals in accordance with section 300ff–25 of this title.

(G) Home health care.

(H) Medical nutrition therapy.

(I) Hospice services.

(J) Home and community-based health services as defined under section 300ff–24(c) of this title.

(K) Mental health services.

(L) Substance abuse outpatient care.

(M) Medical case management, including treatment adherence services.

Condition

Program coordinators are required to visit AIDS Drug Assistance Program (ADAP) enrollment sites every five years in accordance with requirements established by the agreement between the sites and the State. This quality control process re-determines eligibility for individually sampled cases of beneficiary eligibility made by enrollment workers at the local enrollment sites. Enrollment site visits are performed to ensure individuals receiving services meet eligibility requirements. Site visit reports are completed by program coordinators and reviewed by the program chief.

We selected 15 of 71 site visit reports prepared by the Office of AIDS program coordinators during the fiscal year ended June 30, 2011, and noted that 10 of the 15 selected reports had detailed several instances of noncompliance with eligibility requirements including proof of income, proof of HIV status, and up-to-date Cluster of Differentiation Four (CD4)/Viral Load counts. The errors noted in the reports written by program coordinators were as follows.

At the 15 sites, of the 222 files reviewed, we noted the following:

- 15 files (or 6.8 percent) were missing the required identification documentation,
- 23 (or 10.4 percent) files were missing or had incomplete proof of California residency,
- 21 files (or 9.5 percent) were missing either the initial HIV status, the current CD4, or the viral load documentation,
- Five files (or 2.3 percent) were missing proof of Medi-Cal application/referral,
- 53 files (or 23.9 percent) were missing valid proof of income documentation,
- Nine files (or 4.1 percent) were missing a completed/signed ADAP Enrollment Application,
- Four files (or 1.8 percent) had invalid Support Affidavit forms,
- 47 files (or 21.2 percent) were missing the required Grace Period forms.

Based on our review of the site visit reports, it appears there may be material noncompliance regarding documentation to support the eligibility of the participants. The site visit reports did not quantify specific or potential questioned costs related to the exceptions noted. Total expenditures paid to program participants amounted to approximately $130 million for the fiscal year ended June 30, 2011.

In addition to these site visits, the Audits and Investigations unit for the Department of Health Care Services (Health Care Services) performed a performance review of Ramsell Public Health RX, LLC (Health Care Services' third-party pharmacy benefit manager). Health Care Services' review disclosed that 10 out of the 500 transactions selected were for clients who were Medi-Cal eligible with a share of cost and the AIDS Drug Assistance Program (ADAP) paid in excess of the share of cost for four of the 10 clients. Additionally, Health Care Services' review disclosed that 26 out of the 500 transactions selected were for clients who were Medi-Cal eligible with no share of cost and, thus, should not have been billed to ADAP as Medi-Cal is responsible for all payments of their prescriptions. The review identified $305,872 in questioned costs relating to these individuals.

We also noted that Health Care Services reviewed 330 prescriptions noting that 21 of the prescriptions from four pharmacies were missing prescription documentation, which amounted to $9,944.

The lack of adequate eligibility and prescription documentation could result in ineligible recipients receiving Federal assistance.

Questioned Costs

$315,816

Recommendations

Public Health should strengthen its internal controls over the eligibility process and enhance training for local enrollment workers to ensure that payments are only made to eligible recipients and that all required documentation to verify eligibility is maintained in the recipient's file.

Department's View and Corrective Action

Public Health agrees that it should strengthen its internal controls over the eligibility process and enhance training for local enrollment workers to ensure that payments are made only to eligible recipients.

ADAP continues to work with the pharmacy benefits management (PBM) service provider to ensure controls on client eligibility determinations are implemented, and consequently, payments are only made for eligible recipients. Effective July 1, 2010, Public Health site visits that identify deficient client eligibility files/documentation result in immediate notification to the PBM of the specific client files found to have deficiencies and the necessary documentation required to correct the deficiencies. A 60-day grace period is placed on these clients' eligibility, during which time the missing documentation must be provided by the site/enrollment worker/client, and if not, the client's ADAP eligibility is suspended until compliance is achieved. Public Health's ADAP site visits now occur every three years (formerly every five years) and Public Health will visit all 180 ADAP enrollments sites by June 30, 2013. Public Health's newly accelerated site visit/technical assistance cycle has only completed its first year. Once the initial three-year cycle is completed, the next site visit cycle will have improved program compliance findings, including client eligibility documentation.

To strengthen the technical assistance Public Health staff provide during all site visits, Public Health is modifying mandatory annual enrollment worker training to enhance the effectiveness of all aspects of the eligibility determination training.

Additionally, Public Health is working with Health Care Services, Medi-Cal Program, and the PBM to enhance ADAP data systems to identify clients with Medi-Cal eligibility in a more timely and accurate manner to assure ADAP is the payer of last resort. Public Health is pursuing an interagency Data Use Agreement (DUA) to allow Public Health to access the Health Care Services' Medi-Cal eligibility database on a monthly basis to cross-match client eligibility data and identify ADAP clients with Medi-Cal eligibility. Public Health will then collaborate with the ADAP PBM to ensure proper billing, including potential back-billing for prescriptions billable to Medi-Cal.

Reference Number:	2011-5-2
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2009 1105CAARRA; 2011 1005CAARRA; 2010
Category of Finding:	Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH—CHAPTER IV—CENTERS FOR MEDICARE AND MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, Part 435—Eligibility in the States, District of Columbia, the Northern Mariana, Subpart J—Eligibility in the States and the District of Columbia, Section 435.916 Periodic Redeterminations of Medicaid Eligibility

"The agency must redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months."

Condition

States are required to operate a Medicaid Eligibility Quality Control (MEQC) in accordance with requirements established by the Centers for Medicare and Medicaid Services (CMS). The MEQC system redetermines eligibility for individual sampled cases of eligible beneficiaries determined by state Medicaid agencies or their designees. The State of California has been granted a waiver from the traditional MEQC program described in regulation. The program waiver differs from the traditional MEQC program by allowing the performance of special studies, targeted reviews, and other activities that are designated to ensure program integrity or improve program administration. Health Care Services' MEQC process reviewed 2,339 cases from July 2010 to June 2011. Of the 2,339 cases sampled, Health Care Services determined 128 were ineligible for Medicaid or eligible for Medicaid with a difference in their Share of Cost of greater than $400, resulting in a 5.5 percent error rate. Share of Cost represents the amount a beneficiary must provide for health care services received prior to receiving benefits funded by Medicaid, and is similar to a monthly deductible.

We evaluated the accuracy of the MEQC system by obtaining a listing of all eligibility case reviews performed during the fiscal year and selected 65 cases in 10 different counties to reperform the MEQC review. Our sample included 60 without eligibility errors and five with eligibility errors identified by the MEQC review. We note that our conclusions were consistent with those of the MEQC reviewers for the 65 cases we reexamined.

Additionally, we selected 65 case files from the general population of the State's Medicaid beneficiaries in 10 different counties to reperform the counties' eligibility determination. We noted two of the 65 tested cases were ineligible for Medicaid benefits. The nature of our exceptions is as follows:

- Two of the 65 beneficiaries failed to provide a signed annual redetermination form, resulting in the beneficiaries being ineligible to receive Medicaid benefits. The lack of yearly redeterminations may result in funding of individuals who do not meet Medicaid eligibility requirements.

Total direct Federal Medicaid expenditures that the State made for provider payments amounted to $26 billion for the fiscal year ended June 30, 2011.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) granted additional funding to the State in the form of an enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures during the fiscal year ended June 30, 2011, amounted to $5 billion. The error percentage noted in the MEQC reviews may affect Recovery Act expenditures because it indicates there is a material risk of noncompliance related to Eligibility.

Questioned Costs

No specific questioned costs were identified.

Recommendation

Health Care Services should strengthen controls over its redetermination requirements for Medi-Cal beneficiaries to ensure that benefits are discontinued when redeterminations are not received within 12 months of the most recent redetermination date.

Department's View and Corrective Action Plan

Health Care Services will discuss each of the audit findings with the affected counties. These discussions will include a review of the specific findings with each affected county, possible corrective actions, and best practice referrals. If warranted, Health Care Services will conduct focused reviews in specific counties to address the potential Medi-Cal redetermination performance issues. Health Care Services will continue to reinforce expectations that the counties must complete Medi-Cal redeterminations on a timely basis and reiterate to the counties that the pertinent documentation must be available to review in the county case files and automated system data as required by State policies.

Reference Number:	2011-5-3
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2010 1105CAARRA; 2011 1005CAARRA; 2010
Category of Finding:	Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

OMB Circular A-133 Part 3—Section E—Eligibility

(1) "For some Federal programs with a large number of people receiving benefits, the non-Federal entity may use a computer system for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and will be separate from the non-Federal entity's regular financial accounting system".

Social Security Act, Title XIX—Grants to States for Medical Assistance Programs,
Section 1902, State Plans for Medical Assistance, Section (e)(12)—Continuous Eligibility for Children

(12) At the option of the State, the plan may provide that an individual who is under an age specified by the State (not to exceed 19 years of age) and who is determined to be eligible for benefits under a State plan approved under this title under subsection (a)(10)(A) shall remain eligible for those benefits until the earlier of—

(A) the end of a period (not to exceed 12 months) following the determination; or

(B) the time that the individual exceeds that age.

Condition

We note that Health Care Services contracts with the counties of California to perform eligibility determinations for Medicaid beneficiaries. The following three consortium systems are used by the counties to assist in the determination of Medicaid eligibility: California Work Opportunity and Responsibility to Kids Information Network (CALWIN), Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER), and Consortium IV (C-IV). An aid code is generated for each beneficiary, which details the beneficiary's scope of benefits as well as if a Share of Cost is required. Share of Cost represents the amount a beneficiary must provide for health care services received prior to receiving benefits funded by Medicaid, and is similar to a monthly deductible. The consortium systems interface with the Medicaid Eligibility Database System (MEDS), which is the State's Medicaid eligibility system. The State uses the aid code information in MEDS to determine the allowability of claims submitted by confirming the beneficiary's eligibility.

We selected 130 eligibility case files from 10 different counties and reperformed the counties' eligibility determination. Of the 130 sampled cases, one case selected had beneficiaries where there was a discrepancy in aid code between the consortium system and MEDS, which may have an impact on future beneficiary eligibility. The nature of the exception is as follows:

- In the case with the discrepancy in aid code, a child moved from her father's care to her mother's care between counties. The child was previously eligible for no share of cost Medi-Cal while under the care of her father, but her mother's countable income exceeded the income limitations for no share of cost Medi-Cal. The mother was properly aided for Medi-Cal with a share of cost. As the daughter was previously aided with a no share of cost aid code under the guidelines of continuous eligibility for children, she would continue to retain eligibility without a share of cost until the father's next annual redetermination. However, the daughter was not assigned a continuous eligibility for children aid code. As a result, there is the possibility that if uncorrected, she would continue to receive aid without a share of cost after the period where her no share of cost benefits should have lapsed.

Total direct Federal Medicaid expenditures that the State made for provider payments amounted to $26 billion for the fiscal year ended June 30, 2011.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) granted additional funding to the State in the form of an enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act Expenditures during the fiscal year ended June 30, 2011, amounted to $5 billion.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should strengthen controls over performing routine reconciliations over MEDS and the consortium systems for Medicaid beneficiaries to ensure corresponding Medi-Cal information is reflected for beneficiaries on each system. In addition, Health Care Services should strengthen controls over eligibility determination to ensure that beneficiaries are assigned proper aid codes which can be adequately supported.

Department's View and Corrective Action Plan

As part of the corrective action process, Health Care Services will reemphasize through county guidance that when an individual moves to a new county, the new county is required to review prior month's eligibility for individuals to ensure that the appropriate aid code is established. Because the child moved from one county to another, the appropriate entries to generate the Continuous Eligibility Coverage (CEC) aid code was not automatically triggered in the new county. Additional actions by the new county should have been taken in the county system to guarantee that the correct CEC aid code was generated.

Additionally, Health Care Services conducts monthly quality control reviews that evaluate counties' eligibility determinations. When Health Care Services identifies discrepancies in aid codes, it immediately informs the county in which the error occurred to correct the aid codes, although aid code discrepancies generally do not result in eligibility or share of cost errors. However, if the quality control case reviews indicate a particular county is having a significant problem with performing accurate aid code assignments, a meeting can be held with the county's Medi-Cal program staff to discuss the issue and possible corrective action measures. In some cases, a county may be required to provide Health Care Services with a formal corrective action plan with a subsequent focused review to ensure the corrective action plan has been implemented.

Reference Number:	2011-5-4
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program Medi-Cal
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2010 1105CAARRA; 2011 1005CAARRA; 2010
Category of Finding:	Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

SOCIAL SECURITY ACT, Title XIX—GRANTS TO STATES FOR MEDICAL ASSISTANCE PROGRAMS, Section 1920—Presumptive Eligibility for Pregnant Women

(a) A State plan approved under section 1902 may provide for making ambulatory prenatal care available to a pregnant woman during a presumptive eligibility period

(c)(1) The State agency shall provide qualified providers with:

(A) Such forms as are necessary for a pregnant woman to make application for medical assistance under the State plan, and

(B) Information on how to assist such women in completing and filing such forms.

(2) A qualified provider that determines under subsection (b)(1)(A) that a pregnant woman is presumptively eligible for medical assistance under a State plan shall:

(A) Notify the State agency of the determination within five working days after the date on which determination is made, and

(B) Inform the woman at the time the determination is made that she is required to make application for medical assistance under the State plan by not later than the last day of the month following the month during which the determination is made.

Condition

The presumptive eligibility component of this program grants immediate and temporary Medi-Cal coverage for California residents who are pregnant but do not have health insurance or Medi-Cal coverage for prenatal care. Health Service grants the right to enroll recipients under this program to qualified providers. Because the program provides immediate and temporary care prior to the approval of Medi-Cal eligibility, recipients enrolled in presumptive eligibility are not considered Medi-Cal eligible, and therefore, are not entered into Health Care Services' eligibility systems.

Recipients presumed to be eligible are assigned a pre-numbered identification card (obtained from Health Care Services by the provider) that begins with a county identification number and presumptive eligibility aid code. The paper documentation, including the application and presumptive eligibility identification card, are retained by the provider.

The provider is required by the State plan to submit to Health Care Services a weekly enrollment summary of all presumptive eligibility identification numbers issued to Health Care Services for retention. Health Care Services is required to retain the documents for a period of three years. Since the supporting documentation for presumptive eligibility is retained by Health Care Services, the State's fiscal intermediary, Hewlett Packard Enterprise Services (HP), does not perform procedures over the presumed eligible recipients. The HP mainframe processing is set to bypass the eligibility check if it recognizes the special sequencing of the presumptive eligibility identification number.

Consistent with the prior year, Health Care Services is unable to reconcile the presumptive eligibility number against the enrollment listing filed with Health Care Services at this time because of staffing limitations. However, Health Care Services is pursuing an automated process to post the presumptive eligibility identification numbers to the Medi-Cal eligibility system so records for these recipients can be accessed to authenticate, reconcile, and prevent duplicate issuances of the presumptive eligibility number during the claims adjudication process. As such, there does not appear to be adequate tracking of presumptive eligibility numbers, and there is the risk that duplicate issuances of numbers or unauthorized use may occur as the existence of the recipient is not authenticated.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) granted additional funding to the State in the form of an enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures during the fiscal year ended June 30, 2011, amounted to $5 billion. The lack of reconciliation of presumptive eligibility numbers to the enrollment listing may result in Recovery Act funding being expended on individuals who do not meet Medicaid eligibility requirements.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should strengthen their internal controls process to obtain and track the enrollment presumptive eligibility identification numbers issued to prevent unauthorized use of identification numbers. Further, Health Care Services should perform procedures to authenticate the existence of the recipient, prevent duplicate issuances, and reconcile the presumptive eligibility number against the recipient enrollment listing filed at Health Care Services during the claims adjudication process.

Department's View and Corrective Action Plan

Health Care Services lacks the necessary resources needed to develop and implement automated systems to address this finding. However, we believe that the Patient Protection and Affordable Care Act (PPACA) of 2010 provides an ideal opportunity to implement a solution to this problem as we implement the requirements of federal health care reform. As required by the PPACA and with the passage of Senate Bill 900 (Chapter 659, Statutes of 2010), California is required to develop the California Health Benefit Exchange (Exchange). A component of the Exchange is the ability to screen for and enroll eligible individuals into the Medi-Cal program, utilizing a web-based enrollment portal and streamlined eligibility processes. Under the PPACA, for purposes of Medi-Cal eligibility, Health Care Services is required to develop and implement streamlined eligibility determinations and enrollment processes for individuals seeking Medi-Cal covered services. The Exchange provides an opportunity to allow Presumptive Eligibility (PE) Qualified Providers to complete the PE Enrollment for eligible pregnant women using an internet-based application that will provide real-time validation with the Statewide Medi-Cal Eligibility Database System. Health Care Services is working in collaboration with the Health Benefit Exchange Board in the development of the Exchange, which is required to be operational in 2014.

As an interim measure, Health Care Services will begin using a new print vendor as of November 15, 2011, for purposes of automating the process of issuing the presumptive eligibility identification numbers. The new vendor will automate the ordering process to validate presumptive eligibility identification numbers issued to providers. This quality assurance effort reduces the chance of duplicating the presumptive eligibility identification numbers issued to providers.

Reference Number:	2011-13-2
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2010
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 31-MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, Section 7502—Audit Requirements; Exemptions

(f)(2) Each pass-through entity shall:

(b) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means.

Condition

The County-based and School-based Medi-Cal Administrative Activities Units (CMAA and SMAA) of Health Care Services are required to actively monitor the award process of Local Government Agencies (LGAs) and Local Education Consortiums (LECs) that receive Medicaid funding for the reimbursement of expenditures of Medi-Cal services and administration costs. This monitoring process is conducted through site visits and desk reviews. The CMAA and SMAA Units have internal policies for actively monitoring the award process that are guided by agreements between the federal branch of Medicaid (Centers for Medicare & Medicaid Services or CMS) and the CMAA and SMAA. These policies require that there must be a site visit conducted for each CMAA LGA once every four years and for each SMAA LGA/LEC once every three years from the date of their last site visit.

In April 2011, Health Care Services imposed a travel restriction on its employees. As such, analysts were unable to perform all planned site visits. The SMAA unit performs desk reviews when unable to travel. These desk reviews are equivalent in scope to the site reviews. The CMAA unit currently does not have a desk review process implemented for when travel is restricted. For CMAA there were 13 LGAs that had not had a site visit within the last four years, and for SMAA, there were five LGAs/LECs that had not had a site visit within the last three years.

In addition, the CMAA unit has a control in place in which subrecipients submit a claiming plan to the unit and acceptance of the plan is communicated to the subrecipient through an approval letter. These approval letters are authorized by the unit chief. In our sample of five approval letters, one of them did not have evidence of a signature. There was no evidence that the approval letter was properly authorized.

Questioned Costs

No specific questioned costs identified.

Recommendations

Health Care Services should ensure that site visits of LGAs/LECs receiving Medicaid funding are conducted once every three or four years to actively monitor the award process. Health Care Services should also enhance its current policies and procedures to ensure that claiming plan approval letters are properly authorized.

Department's View and Corrective Action Plan

Health Care Services concurs with this recommendation.

In April 2011, Health Care Services imposed travel restrictions on its employees and all site visits were cancelled. During fiscal year 2011–12, SMAA staff reinstituted its desk review process and will be in compliance with monitoring requirements by June 30, 2012. CMAA staff has developed a desk review process that is equitable to the site review process. The CMAA staff will develop a desk review schedule to ensure that the CMAA unit adheres to the requirement to conduct LGA reviews every four years. The CMAA staff will be in compliance with monitoring requirements by January 1, 2013.

In addition, there was an instance where there was no evidence that a CMAA unit claiming plan approval letter was properly authorized. This instance was identified as a clerical error due to staffing deficiencies and new procedures have been implemented to ensure proper document tracking and storage in the future. The CMAA unit clerical staff has been instructed to scan a copy of the original signed document and save the document as an Adobe pdf file on the Branch network server. The original will be mailed to the recipient and the pdf file will remain on the Branch server.

Reference Number:	2011-13-3
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2010
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 31-MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, Section 7502—Audit Requirements; Exemptions

(f)(2) Each pass-through entity shall:

(d) Provide the subrecipient program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements, which govern the use of such awards and the requirements of this chapter.

Condition

During procedures performed over award identification, we were unable to identify controls to ensure that award information was properly communicated to School-based Medi-Cal Administrative Activities (SMAA) Local Government Agencies (LGAs) and Local Education Consortiums (LECs). We noted the program uses SMAA agreements as a means to communicate award identification to its SMAA LGAs/LECs. These agreements do not contain the identifying Catalog of Federal Domestic Assistance (CFDA) number of the federal program that Health Care Services passed through to the subrecipient.

As a result, Health Care Services disbursed more than $408 million to subrecipients without communicating complete award information for the fiscal year ended June 30, 2011.

Questioned Costs

No specific questioned costs were identified.

Recommendation

Health Care Services should implement policies and procedures to ensure that the identifying number of the federal program is included in each of its subgrant agreements.

Department's View and Corrective Action Plan

Health Care Services agrees with this recommendation.

The SMAA agreement, Exhibit B Budget Detail and Payment Provisions will be modified to include the following information:

Title 31—Money and Finance, Subtitle V—General Assistance Administration, Section 7502 requires each pass-through entity provide the subrecipient program names and any identifying numbers from which such assistance is derived. The CFDA number for this federal program is 93.778, Medi-Cal.

Reference Number:	2011-14-2
Federal Catalog Number:	93.268
Federal Program Title:	Immunization Grants, Recovery Act Funded
Federal Award Numbers and Years:	5H23IP922507-09; 2011 5H23IP922507-08; 2010
Category of Finding:	Special Tests and Provisions—Control, Accountabililty, and Safeguarding of Vaccine
State Administering Department:	Department of Public Health (Public Health)

Criteria

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 Compliance Supplement indicates that grantees must provide oversight of vaccinating providers to ensure that proper control and accountability is maintained for vaccine, vaccine is properly safeguarded, and eligibility screening is conducted.

Condition

During our procedures performed over special tests and provisions, control, accountability, and safeguarding of vaccine, we selected a sample of Quality Assurance Reviews (QAR) to determine whether Public Health provides oversight of vaccinating providers. Based on a review of the QAR samples, we noted that while Public Health had procedures for assessing provider storage procedures and reviewing provider medical records for documentation of eligibility screening, Public Health's QAR process did not include a review of inventory records.

As a result, inventory storage and handling procedures at vaccinating providers may not be adequate to ensure vaccines are properly accounted for. Additionally, if inventory records are not adequately monitored by the providers, vaccine levels may not be maintained at levels adequate to meet the needed demands.

Questioned Costs

No specific questioned costs were identified.

Recommendation

Public Health should enhance its current policies and procedures to include inventory record review and risk of loss from theft during QARs.

Department's View and Corrective Action Plan

Public Health disagrees that it should enhance its current policies and procedures to include inventory record review, and risk of loss from theft during QAR reviews. Public Health believes that the auditor's concerns do not consider other inventory control measures employed by Public Health outside of the QAR visit. The QAR visit is only one of the methods that Public Health uses to assess providers participating in the Vaccine for Children program (VFC). The requirements for what activities will occur during a QAR visit are dictated by the Centers for Disease Control and Prevention (CDC). CDC does not require a physical inventory during a QAR visit. However, CDC does require performing QAR visits on at least 50 percent of our providers yearly. This requirement means that Public Health

must perform over 2200 QAR visits per year. The time required to conduct a physical inventory would substantially reduce the number of QAR visits and thereby cause Public Health to fail to meet the CDC grant requirement and potentially put current funding levels at risk.

Public Health employs other inventory control measures outside of the QAR visit. Public Health assigns providers an ordering frequency based on the volume of vaccines they administer. Large volume providers order more frequently to minimize the amount of vaccine stored in their refrigerator at one time and thus minimize the risk of loss to the program if there are problems with storing the vaccine. If a provider's usage increases and he or she does not have enough vaccine to last until the next order, Public Health will authorize a supplemental order to ensure that the provider does not run out of vaccine. To ensure accountability for vaccines ordered, Public Health assesses inventory each time a provider orders vaccine. When a provider places an order, they account for each dose of vaccine received from Public Health. Public Health staff verify the number of doses distributed to that provider and ensure satisfactory accounting of all doses. If a provider cannot account for all of the vaccine, Public Health contacts the provider to resolve the issue before approving the order. Public Health then checks the current inventory level and reduces or augments to ensure providers have appropriate vaccine levels. These activities provide a sufficient, meaningful, real-time check that addresses the concern noted by the auditor.

Auditor's Comments on Department's View

While Public Health has other inventory control measures outside of the QAR visit, these consist of monitoring ordering frequency and inventory levels. No procedures exist to sample provider's inventory records to ensure proper recording of receipt, transfer, and usage of vaccines.

Reference Number:	2011-14-3
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1105CA5MAP; 2011 05-1005CA5MAP; 2010 05-1105CAARRA; 2011 05-1005CAARRA; 2010
Category of Finding:	Special Tests & Provisions—Provider Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42 PUBLIC HEALTH, Part 431—STATE ORGANIZATION AND ADMINISTRATION, Subpart C—Administrative Requirements: Provider Relations, Section 431.107—Required Provider Agreement.

(b) Agreements. A State plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to:

(1) Keep any records necessary to disclose the extent of services the provider furnishes to recipients;

(2) On request, furnish to the Medicaid agency, the Secretary, or the State Medicaid fraud control unit (if such a unit has been approved by the Secretary under Section 455.300 of this chapter), any information maintained under paragraph (b)(1) of this section and any information regarding payments claimed by the provider for furnishing services under the plan;

(3) Comply with the disclosure requirements specified in Part 455, Subpart B of this chapter;

(4) Comply with the advance directives requirements for hospitals, nursing facilities, providers of home health care and personal care services, hospices, and HMOs specified in Part 489, subpart I, and Section 417.436(d) of this chapter;

(5)(i) Furnish to the State agency its National Provider Identifier (NPI) (if eligible for an NPI); and

(ii) Include its NPI on all claims submitted under the Medicaid program.

Condition

Prior to November 1999, the Provider Enrollment Division (PED) of Health Care Services did not require its Medicaid providers to submit a provider agreement with the application package. PED has since updated its enrollment process to require provider agreements. Of the 50 providers we selected for provider eligibility testing, all of the providers selected had the required provider agreement. However, not all providers prior to 1999 have been reenrolled as of fiscal year 2010–11, and, as such, do not have the required re-enrollment package, including the required provider agreement, on file with PED.

Questioned Costs

No specific questioned costs were identified.

Recommendation

We recommend that Health Care Services should continue to strengthen and complete its efforts to re-enroll all active providers in order to ensure that all providers have a provider agreement in place.

Department's View and Corrective Action Plan

PED updated its provider enrollment process to require provider agreements and continues its plan to re-enroll all Medi-Cal providers as a continuous process as resources are available. Re-enrolled providers are required to submit a re-enrollment application package updated to current federal standards to retain Medi-Cal eligibility. PED has also updated its requirements so that all providers must submit a new application package to report a new, additional, or change in service location. In addition, state law requires that a new application be submitted when there is a change in business entity. Health Care Services continually verifies provider information to ensure compliance with state and federal requirements in its ongoing re-enrollment efforts.

The California Department of Public Health's (Public Health) Licensing and Certification Division is responsible for determining the eligibility of facility providers. In 2008, a new provider agreement was jointly developed for facility providers by Health Care Services and Public Health. Public Health continues to collect new provider agreements from facility providers.

Per Interagency Agreement (IA) Number 10-87042 between Public Health and Health Care Services implemented on July 1, 2010, Public Health collects, maintains, and stores enrolled facility provider records, including provider agreements. Public Health also forwards all provider agreements to Health Care Services.

Macias Gini & O'Connell LLP

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U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2011-13-4
Federal Catalog Numbers:	10.553, 10.555
Federal Program Titles:	Child Nutrition Cluster: School Breakfast Program and National School Lunch Program
Federal Award Number and Year:	58-3198-7430; 1998
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart C—Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

TITLE 7—AGRICULTURE, CHAPTER II—FOOD AND NUTRITION SERVICE, DEPARTMENT OF AGRICULTURE, PART 210 NATIONAL SCHOOL LUNCH PROGRAM—Table of Contents, Subpart D-Requirements for State Agency Participation, Section 210.19 Additional responsibilities, (a) General Program management

(6) Food service management companies.

> Each state agency shall annually review each contract (including all supporting documentation) between any school food authority and food service management company to ensure compliance with all the provisions and standards set forth in this part before execution of the contract by either party. When the state agency develops a prototype contract for use by the school food authority that meets the provisions and standards set forth in this part, this annual review may be limited to changes made to that contract. Each state agency shall review each contract amendment between a school food authority and food service management company to ensure compliance with all the provisions and standards set forth in this part before execution of the amended contract by either party. The state agency may establish due dates for submission of the contract or contract amendment documents. Each state agency shall perform an on-site review of each school food authority contracting with a food service management company, at least once during each five-year period. The state agency is encouraged to conduct such a review when performing reviews in accordance with Section 210.18. Such reviews shall include an assessment of the school food authority's compliance with Section 210.16 of this part. The state agency may require that all food service management companies that wish to contract for food service with any school food authority in the state register with the state agency. State agencies shall provide assistance upon request of a school food authority to assure compliance with program requirements.

Condition

Education lacked documentation of its approval of subrecipient contracts with food service management companies within its Child Nutrition Information and Payment System (CNIPS). Education did not implement appropriate internal controls and monitoring procedures to ensure the approval of the contracts was documented within CNIPS prior to funding reimbursements to subrecipients. Furthermore, four of the 51 contracts requested for testing of compliance with 7CFR210.19 could not be provided by Education. Of the 47 contracts that were tested, three did not

contain the required disclosures pursuant to 7CFR210.19. Education risks that reimbursements are being made to subrecipients for expenditures on contracts with food service management companies that do not meet the requirement of 7CFR210.19.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should strengthen the design of the application controls within CNIPS to require that food service management company contracts are in compliance with federal requirements and are properly approved prior to the approval of the annual renewal application and subsequent reimbursement of federal funds to subrecipients.

Department's View and Corrective Action Plan

To strengthen monitoring policies and procedures, Education is implementing the following actions to ensure that food service management company (FSMC) contracts are in compliance with Federal requirements:

1. Beginning January 2012, Education plans to re-direct existing staff to assist with the FSMC pre-approval process until additional permanent staff can be hired to maintain this process.
2. By April 1, 2012, establish a FSMC Registry, and require all FSMCs to register with Education in order to provide services to California's School Food Authorities (SFAs). This will:
   - Ensure that the SFAs are conducting competitive bidding procedures and contracting only with viable FSMCs.
   - Reduce the risk of non-responsive bids, by obtaining and maintaining required certifications.
   - Ensure the use of Education's prototype contracts.
   - Facilitate Education's oversight of FSMC contracting practices.
   - Enhance Education's ability to obtain accurate FSMC and SFA contracting data.
3. By April 1, 2012, Education will require SFAs to utilize a prototype contract designed to: (1) ensure that all contracts contain the required clauses; and (2) expedite contract review and approval processes.

U.S. DEPARTMENT OF EDUCATION

Reference Number:	2011-5-5
Federal Catalog Numbers:	84.126, 84.390
Federal Program Titles:	Vocational Rehabilitation Cluster: Rehabilitation Services—Vocational Rehabilitation Grants to States and Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act
Federal Award Numbers and Years:	H126A1100005-11B; 2011 H126A100005C; 2010 H126A090005B; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

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

(a)(6) Time frame for making an eligibility determination

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

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

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

Condition

Rehabilitation did not determine applicant eligibility for services within the required 60-day time period for six of the 60 applicant cases reviewed. For two of the six cases, Rehabilitation provided documentation supporting the mutual agreement with the applicant to extend the 60-day time period, however, the extension period had expired prior to final eligibility determination. The cause for the noncompliance with the 60-day time period requirement is primarily due to limitations of Rehabilitation's case management system. The case management system does not contain an automated mechanism for prompting caseworkers to complete eligibility determination for clients as deadlines approach and there is a lack of mitigating manual procedures and controls in place to ensure compliance with the requirement. Failure to determine an applicant's eligibility within the required time period in accordance with federal regulations prohibits qualified applicants from receiving timely vocational rehabilitation services. We reported a similar finding in our audits of fiscal years 2008–09 and 2009–10.

Questioned Costs

No specific questioned costs identified.

Recommendations

Rehabilitation should develop and implement procedures designed to assist caseworkers in managing and meeting eligibility determination deadlines. The procedures should be supplemented with tools developed within Rehabilitation's case management application that alert caseworkers when eligibility determination deadlines are approaching.

Department's View and Corrective Action Plan

Rehabilitation agrees with this finding. Rehabilitation has committed considerable resources over the past years to replace the Field Computer System used for case management during the scope of this audit with a new system (AWARE). Rehabilitation implemented AWARE as of October 2011, and expects to implement procedures designed to assist caseworkers in managing and meeting eligibility determination deadlines in 2012.

Rehabilitation will continue to emphasize the importance of manually tracking eligibility timelines and extensions. Counselors and managers will be oriented to the most effective tools available.

Upon completion of post-implementation AWARE enhancements, Counselors and Rehabilitation supervisors will receive automated "Activity Due" reminder notices in the system before the expiration of the 60 days allowed for eligibility determination. Additionally, the AWARE system contains ad hoc and managed layout reporting features that allow easily attainable reports produced by each user, facilitating increased monitoring at the local level.

Reference Number:	2011-7-1
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education (Education)
Federal Catalog Number:	84.010
Federal Program Title:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies
Federal Award Numbers and Years:	S010A100005A; 2010 S010A090005A; 2009 S010A080005A; 2008
Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers
Federal Award Numbers and Years:	S287C100005; 2010 S287C090005; 2009 S287C080005A; 2008
Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A100005A; 2010 T365A090005A; 2009 T365A080005A; 2008
Federal Catalog Number:	84.367

Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Numbers and Years:	S367A100005A; 2010 S367A090005A; 2009 S367A080005A; 2008

Criteria

TITLE 34—EDUCATION, PART 299—GENERAL PROVISIONS, Subpart D—Fiscal Requirements, Section 299.5—What Maintenance of Effort Requirements Apply to ESEA Programs?

(a) General. A LEA receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the State Educational Agency (SEA) finds that either the combined fiscal effort per student or the aggregate expenditures of state and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year.

(d) Expenditures

(1) In determining an LEA's compliance with paragraph (a) of this section, the SEA shall consider only the LEA's expenditures from state and local funds for free public education. These include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities.

(2) The SEA may not consider the following expenditures in determining an LEA's compliance with the requirements in paragraph (a) of this section:

(i) Any expenditures for community services, capital outlay, debt service, or supplemental expenses made as a result of a Presidentially declared disaster.

(ii) Any expenditures made from funds provided by the federal government.

U.S. OFFICE OF MANAGEMENT AND BUDGET (OMB) *CIRCULAR A-133 COMPLIANCE SUPPLEMENT* (A-133 COMPLIANCE SUPPLEMENT), PART 3–COMPLIANCE REQUIREMENTS, Suggested Audit Procedures–Compliance

Level of Effort—Maintenance of Effort

2.1(c) Perform procedures to verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.

Condition

Similar to an issue we reported for fiscal year 2009–10, Education was using unaudited local educational agency (LEA) expenditure figures to calculate compliance with the maintenance of effort (MOE) requirements instead of using the final audited expenditures. Upon further inquiry, we noted that LEAs are required to submit their unaudited financial trial balances electronically in the state-required format, Standard Account Code Structure (SACS), to Education by October 15th of each year. These SACS trial balances are then used for all LEA financial measurement calculations (such as level of effort) performed by Education. The final audited financial statements are submitted in hard copy or electronically to Education through the State Controller's Office by December 15th; however, there is not a required follow-up submission of the final SACS trial balance to Education. The financial statements submitted are not at the level of detail that would allow Education to prepare these fiscal effort calculations. There is no policy or procedure in place to review and reconcile the unaudited SACS trial balance to the final audited financial statement or to review the subsequent year's SACS trial balance submission in the following October for any material adjustments to the fund balance for prior-year audit adjustments.

For fiscal year 2010–11, the MOE is based on LEA expenditures for July 1, 2008 through June 30, 2009, which have since been audited and for which the audit reports have been completed and available since December 2009. Education's position is that it will not require LEAs to submit audited data during the 24 months between the audit date and the MOE date of December 2011. Education states that it cannot require LEAs to make an additional submission of the final audited expenditure data used to make these fiscal-effort calculations due to state law. However, by using the unaudited figures, there is a risk that material adjustments or omissions may not be adequately reflected and computed in the MOE calculation.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should enhance its current MOE policies and procedures to ensure that they comply with required federal guidelines.

Department's View and Corrective Action Plan

Education continues to work with the U.S. Department of Education's Risk Management Service and Office of Inspector General in exploring feasible and acceptable options for enhancing Education's existing MOE calculation process, including the use of unaudited versus audited data; as part of this cooperative effort, other states' processes will be considered.

Reference Number:	2011-7-2
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States
Federal Award Number and Year:	V048A080005; 2008
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education (Education)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart C—Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition

Education was not able to provide support for the fiscal year 2007–08 student count that was used to determine Education's fiscal year 2010–11 maintenance of effort (MOE) compliance requirement for the Career and Technical Education program because the student count information was not retained nor can it be recreated from the Perkins Data System. Without proper documentation to support the calculation, Education cannot support compliance with the MOE requirement.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should strengthen its internal controls over records retention for all compliance requirements.

Department's View and Corrective Action Plan

To strengthen internal controls over the retention of documents related to determining MOE, Education is currently implementing a process in which all documents will be organized and available both electronically and in hard copy.

Current Year Reference Number:	2011-7-5
Federal Catalog Numbers:	84.027, 84.173
Federal Program Titles:	Special Education Cluster (IDEA): Special Education—Grants to States and Special Education—Preschool Grants
Federal Award Numbers and Years:	H027A080116; 2008 H173A080120; 2008
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education (Education)

Criteria

TITLE 20—EDUCATION, CHAPTER 33—EDUCATION OF INDIVIDUALS WITH DISABILITIES, SUBCHAPTER II—ASSISTANCE FOR EDUCATION OF ALL CHILDREN WITH DISABILITIES, Section 1412—State eligibility

(a) In general, a State is eligible for assistance under this subchapter for a fiscal year if the State submits a plan that provides assurance to the Secretary that the State has in effect policies and procedures to ensure that the State meets each of the following conditions:

(18) Maintenance of State financial support

(A) In general, the State does not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year.

(B) Reduction of funds for failure to maintain support

The Secretary shall reduce the allocation of funds under Section 1411 of this title for any fiscal year following the fiscal year in which the State fails to comply with the requirement of subparagraph (A) by the same amount by which the State fails to meet the requirement.

(C) Waivers for exceptional or uncontrollable circumstances

The Secretary may waive the requirement of subparagraph (A) for a State, for one fiscal year at a time, if the Secretary determines that—

(i) granting a waiver would be equitable due to exceptional or uncontrollable circumstances such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the State; or

(ii) the State meets the standard in paragraph (17)(C) for a waiver of the requirement to supplement, and not to supplant, funds received under this subchapter.

(D) Subsequent years

If, for any year, a State fails to meet the requirement of subparagraph (A), including any year for which the State is granted a waiver under subparagraph (C), the financial support required of the State in future years under subparagraph (A) shall be the amount that would have been required in the absence of that failure and not the reduced level of the State's support.

Condition

The State's maintenance of effort (MOE) expenditures for its 2008–09 federal fiscal year grants totaled $3,613,203,624, which was $8,231,743 less than that for its 2007–08 federal fiscal year grants total of $3,621,435,367. This appears to be a direct result of the downturn in the economy causing a decline of the state's financial resources. Unless Education applies for and receives a waiver, this noncompliance with the maintenance of effort requirement means that Education is subject to a reduction of federal funding in any following fiscal year by $8,231,743.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should apply for the waiver. Furthermore, Education should develop procedures to monitor compliance throughout the grant period to ensure MOE requirements are being met; or if they are not being met, allow Education plenty of time to determine if the waiver criteria applies, and if so, apply for the waiver.

Department's View and Corrective Action Plan

As the auditors report, the economy caused an uncontrollable precipitous decline in the state's fiscal year 2008–09 financial resources. In addition, data for calculating MOE often changes for several years after the initial calculations. Therefore, Education is updating the data for calculating MOE, and will use this data to determine whether or not MOE requirements were met for fiscal year 2008–09. If necessary, Education will obtain the necessary fiscal information to support a request for waiver of the state's maintenance of effort requirement. To ensure that maintenance of effort requirements are currently being met and to allow for additional time if a request for waiver of the state maintenance of effort requirement is deemed necessary, Education will increase the frequency of calculating preliminary comparisons.

Reference Number:	2011-12-2
Federal Catalog Number:	84.388
Federal Program Title:	School Improvement Grants Cluster: School Improvement Grants, Recovery Act
Federal Award Number and Year:	S388A090005A; 2009
Category of Finding:	Reporting
State Administering Department:	Department of Education (Education)

Criteria

Per OMB memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* dated June 22, 2009, Section 4.2, prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Prime recipient:

- Owns recipient data and sub-recipient data
- Initiates appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner
- Implements internal control measures as appropriate to ensure accurate and complete information
- Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub-recipient to address any data quality issues

Per Section 4.3, Federal agency, recipients, and sub-recipients should establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all amounts funded by the Recovery Act. Possible approaches to this include:

- Establishing control totals (e.g., total number of projects subject to reporting, total dollars allocated to projects) and verify that reported information matches the established control totals;
- Creating an estimated distribution of expected data along a "normal" distribution curve and identifying outliers;
- Establishing a data review protocol or automated process that identifies incongruous results (e.g., total amount spent on a project or activity is equal to or greater than the previous reporting); and
- Establishing procedures and/cross-validation of data to identify and/or eliminate potential "double counting" due to delegation of reporting responsibility to sub-recipient.

Per Section 4.4, recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and following, the formal submission of data. The post-submission review period runs from the 11th day of the reporting month to the 21st day of the reporting month for prime recipients. During this post-submission review period, significant reporting errors or material omissions that are discovered can be corrected using the www.FederalReporting.gov solution. Specific instructions for submitting new or corrected data will be provided on the www.FederalReporting.gov Web site. The prime recipients are responsible for reviewing data submitted by subrecipients. Where a recipient identifies a data quality issue with respect to information submitted by the subrecipient, the recipient is required to alert the relevant subrecipient of the nature of the problem identified by the recipient. All corrections by recipients and subrecipients during this phase of the review must be transmitted by the 21st day of the reporting month.

Condition

Education requires subrecipients of American Recovery and Reinvestment Act (ARRA) funding to submit Section 1512 report data using the Education developed web-based ARRA Reporting & Data Collection System and to maintain the records supporting the submitted data. During our testing of subrecipient monitoring, we noted that Education did not monitor subrecipients for accuracy in Section 1512 reporting. Education did not design and implement a monitoring process prior to the receipt of the grant.

Education's fourth quarter Section 1512 reporting reflected expenditures totaling $67,540,741 being passed-through to subrecipients from inception to June 30, 2011, which represents 19 percent of Education's total Recovery Act award.

By not properly monitoring the accuracy of Section 1512 reporting, Education cannot ensure the quality and completeness of data submissions.

In addition, federal agencies will work to identify and remediate instances in which recipients that demonstrate systemic or chronic deficiencies in meeting its responsibilities to review and identify data quality problems of subrecipients consistent with the requirements of this guidance. On a case-by-case basis, such findings of a federal agency can result in termination of federal funding and/or initiation of suspension and debarment proceedings of either the recipient or subrecipient or both. Furthermore, in some cases, intentional reporting of false information can result in civil and/or criminal penalties.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should revise its current practices to conform with the requirements set-forth in OMB memorandum M-09-21. Management should design internal controls to ensure that such controls are operating effectively to ensure ongoing compliance with the aforementioned compliance requirements.

Department's View and Corrective Action Plan

To ensure reported Section 1512 data are complete, accurate, and consistent with guidance, Education has taken the following actions:

Subrecipient data pre-loaded from existing databases. This data includes the following:

1. Name, address, subrecipient type
2. CDS code (county-district-school, our code to identify local education agencies (LEAs))
3. Sub-award number
4. Sub-award amount
5. Amount disbursed

System checks

1. LEA data will not be saved unless all required fields are completed
2. DUNS number must contain nine digits
3. Congressional, State Senate, and State Assembly districts in right numerical range
4. Amount spent cannot be greater than award
5. Infrastructure spending permitted only with certain grants (State Fiscal Stabilization Fund Grants, Individuals with Disabilities Education Act, and Child Care and Development Block Grant, Quality Repair and Renovation)
6. Vendor information must include either DUNS number OR name and zip+4

Other checks

1. Use zip code software to validate addresses and add +4 if available (http://zip4.usps.com/zip4/welcome.jsp)

2. Check that Congressional district in the right range based on county code (part of CDS code [NativeCode])
3. Review jobs data for reasonableness
   a. Divide grant award by $50,000 for a reasonable job entry
   b. If the total jobs entry (classified, certificated, and vendor job) exceeds the above reasonable check by 25 or more, then we follow up with LEAs.
4. Check that DUNS numbers not equal to 000000000; followed up with LEAs as appropriate.
5. Review data from the 10 largest LEAs; check for completeness, job reasonableness, and prior quarter entries such as following up on drops in full-time equivalents by 50 or more or any abnormalities in reported expenditures.
6. Notify subrecipients of the continuous correction period and encourage subrecipients to make corrections during that time.

In addition, Education's Fiscal Monitoring Unit (FMU) currently reviews selected LEA's reporting of Section 1512 data. Although not specific to the School Improvement Grant (SIG), the FMU assesses the accuracy of an LEA's compliance with Section 1512 reporting requirements. The implementation of on-site monitoring of SIG funds will commence in December 2011 through Education's Federal Program Monitoring process.

Reference Number:	2011-12-3
Federal Catalog Numbers:	84.126, 84.390
Federal Program Titles:	Vocational Rehabilitation Cluster: Rehabilitation Services—Vocational Rehabilitation Grants to States and Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act
Federal Award Numbers and Years:	H126A1100005-11B; 2011 H126A100005C; 2010 H126A090005B; 2009
Category of Finding:	Reporting
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

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

(b) *Financial Status Report—*

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

(4) *Due date.* When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

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

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

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

Condition

Rehabilitation did not submit four of five required financial reports tested on a timely basis. Rehabilitation was aware of the reporting due dates, however budget cuts and increased work assignments prevented the preparation and submission of the financial reports in a timely manner. Rehabilitation was proactive in notifying the federal contact that the reports would be submitted late; however, Rehabilitation did not receive a waiver/extension on the required report submittals. The impact of submitting late financial reports can result in disciplinary action from the federal agency and delay funding of federal draws.

Questioned Costs

No specific questioned costs identified.

Recommendation

Rehabilitation should reorganize staff assignments to ensure adequate resources are available to prepare and submit the required financial reports in a timely manner.

Department's View and Corrective Action Plan

Rehabilitation agrees with this finding. Rehabilitation will review its federal reporting staff assignments to ensure financial reports are submitted in a timely manner.

Reference Number:	2011-13-7
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Federal Catalog Numbers:	84.010, 84.389
Federal Program Titles:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies; Title I Grants to Local Educational Agencies, Recovery Act
Federal Award Numbers and Years:	S010A100005A; 2010 S010A090005A; 2009 S010A080005A; 2008 S010A070005A; 2007 S389A090005A; 2009

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A100005A; 2010 T365A090005A; 2009 T365A080005A; 2008 T365A070005A; 2007

Federal Catalog Number:	84.394
Federal Program Title:	State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act
Federal Award Number and Year:	S394A090005A; 2009

Federal Catalog Number:	84.410
Federal Program Title:	Education Jobs Fund
Federal Award Number and Year:	S410A100005; 2010

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

(f)(2) Each pass-through entity shall:

(B) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means.

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Reports, Records Retention, and Enforcement, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

As in the case of a similar condition we reported for fiscal year 2009–10, we reviewed the support for the follow-up by the Federal Program Monitoring Unit (FPM—formerly Categorical Monitoring) to ensure corrective action on deficiencies noted during FPM's reviews of local educational agencies (LEAs). We tested 45 of the 121 FPM onsite and online reviews completed during the year. We noted the number of days between the Notice of Findings (NOF) and the Proposed Resolution of Findings of Noncompliance (PRFN). Education requires the LEAs to submit a PRFN within 45 days of the NOF date. Of the 45 reviews tested, three had PRFN dates more than 45 days subsequent to the NOF date.

We noted that there were no communications from Education to those LEAs regarding the delinquency of the PRFN submission. We also noted the number of days between the NOF date and the receipt of the corrective actions that resulted in all deficiencies being resolved. Education requires the LEAs to allow reasonable time to resolve all deficiencies within 225 days of the NOF date. Of the 45 reviews tested, five had an unresolved status of more than 225 days subsequent to the NOF date. Upon further review, four of those five LEAs had either not yet submitted their corrective actions or had submitted insufficient corrective actions for all deficiencies noted during the review. The fifth LEA had submitted corrective actions for the deficiencies noted during the reviews within the 225-day period; however, Education had not resolved the deficiencies within the 225-day period.

The delayed resolution of outstanding monitoring deficiencies appear to be due to a combination of delayed follow up and ineffective sanctions imposed by Education on the LEAs for belated implementation of corrective action plans. Without effective consequences for the delays, LEAs do not have an incentive to implement corrective actions in a timely manner.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should enhance its current monitoring policies and procedures to ensure that LEAs implement promptly the proposed corrective actions on deficiencies noted during monitoring reviews and that consequences for delayed resolutions are effective for deterring such noncompliance. In addition, once it receives corrective action documents from LEAs, Education should be more prompt in resolving deficiency issues.

Department's View and Corrective Action Plan

To improve federal program monitoring, the FPM Office is implementing new functionalities in the Web-based on-line California Accountability and Improvement System (CAIS). The new electronic functionalities will replace paper-based processes to increase the effectiveness of monitoring the LEAs' resolution of findings. Currently, the resolution of findings process is conducted by using a paper system that is initiated by the LEA, uploaded to CAIS, and then reviewed by FPM Office staff. The new CAIS functionalities will provide FPM Office staff real-time compliance resolution tracking functions and access to LEA data such as the status of corrective actions taken to resolve identified deficiencies. As part of this improvement process, the FPM Office refined the monitoring protocols, and will: (1) provide program managers monthly updates on the resolution of findings; and (2) train staff on the use of CAIS' finding resolution process.

On an annual basis, Education submits for conditional approval LEAs with outstanding findings over 225 days to the State Board of Education. Education will continue this practice as a means to encourage LEAs to resolve findings in a timely matter. Furthermore, to encourage LEAs to resolve findings within the 225 day time frame, Education plans to post select findings on the Education Web site beginning in spring 2012.

Reference Number:	2011-13-8
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Federal Catalog Numbers:	84.010, 84.389
Federal Program Titles:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies; and Title I Grants to Local Educational Agencies, Recovery Act
Federal Award Numbers and Years:	S010A100005A; 2010 S010A090005A; 2009 S010A080005A; 2008 S010A070005A; 2007 S389A090005A; 2009

Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Numbers and Years:	S011A100005A; 2010 S011A090005A; 2009 S011A080005A; 2008 S011A070005C; 2007

Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States
Federal Award Numbers and Years:	V048A100005; 2010 V048A090005; 2009 V048A080005; 2008 V048A070005; 2007

Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers
Federal Award Numbers and Years:	S287C100005; 2010 S287C090005; 2009 S287C080005A; 2008 S287C070005; 2007

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A100005A; 2010 T365A090005A; 2009 T365A080005A; 2008 T365A070005A; 2007

Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Numbers and Years:	S367A100005A; 2010 S367A090005A; 2009 S367A080005A; 2008 S367A070005A; 2007

Federal Catalog Number:	84.394
Federal Program Title:	State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act
Federal Award Number and Year:	S394A090005A; 2009

Federal Catalog Number:	84.410
Federal Program Title:	Education Jobs Fund
Federal Award Number and Year:	S410A100005; 2010

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart C—Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition

Education uses a third-party application called WestEd Tracker (Tracker). This system was designed and is maintained by WestEd, a nonprofit public research and development agency. Tracker has two primary modules: Program Monitoring and Improvement Planning. The Federal Program Monitoring (FPM) unit of Education uses the Program Monitoring module, referred to as CAIS (California Accountability and Improvement System), to facilitate federal and state program monitoring. The use of CAIS was implemented during the fiscal year ended June 30, 2010, during the pilot phase of transitioning from a paper-based monitoring system to an electronic-based system. Since implementation there have been multiple changes to the program code as end-user functionality was enhanced and customized for use in subrecipient monitoring. Therefore, we assessed the controls over application change management and noted the following:

1. Tracker was developed by WestEd through the Southwest Comprehensive Center (SWCC) and the California Comprehensive Center (CACC), in collaboration with other state Departments of Education. Education does not have a contract or service level agreement with WestEd over the management of Tracker. This increases the risk that changes may be made to Tracker or the maintenance of Tracker may affect the accuracy, integrity and availability of the CAIS database. Education should consider working with the SWCC and CACC to develop a service-level agreement with WestEd for the use, maintenance and enhancements of Tracker. Additionally, Education, working with the SWCC and CACC, should request that WestEd have a Service Organization Review performed over their management controls of the Tracker application, in accordance with Statement on Standards for Attestation Engagements No. 16. We consider this to be a *significant deficiency*.

2. Education has little say in how Tracker is managed or what functionality it has or will have. Education is a user of a service provided by the CACC. This may impact Education if changes are made to the application that have a negative impact. Education must evaluate all implemented changes to Tracker in order to properly maintain records and controls in compliance with the approved FPM Subrecipient Monitoring Protocols (FPM Protocols). There is also little recourse for Education if Tracker adversely impacts monitoring efforts. In order to ensure that monitoring documents and materials are kept available, Education may want to consider maintaining their own backup copies of the database. Education may also want to consider documenting its analysis of implemented changes and conclusions as to the impact of those changes on maintaining compliance with FPM Protocols and resulting changes to FPM Protocols, if any. We consider this to be a *significant deficiency*.

3. Education is not generally aware of changes or updates to the application that are being considered or developed by WestEd. This places Education at increased risk of changes being applied to the application that may not be beneficial or may affect their ability to properly maintain records and controls in compliance with the approved FPM Protocols. Education should consider requesting that WestEd maintain an online log of planned changes to the application and their status in the development process. Additionally, Education should work to establish a service level agreement with WestEd to ensure that announcements of changes are made with enough advance notice so that Education's subrecipient users can be properly notified. We consider this to be a *significant deficiency*.

4. After planned changes are developed and tested within WestEd, the release is made available to Education users on PMT. WestEd.org Web site for user testing. WestEd should make greater effort to communicate the planned changes to Education and provide sufficient time for end-user acceptance testing before applying the changes to the production system. Standard test scripts should be used by Education to evaluate the release and ensure that program changes do not adversely affect the application functions. Education should work with WestEd to develop a set of test scripts that should be used whenever program changes are being made. We consider this to be a *significant deficiency*.

The overall risk to Education is that the current change controls over Tracker give rise to a higher risk of noncompliance with established FPM Protocols and therefore, to Education's ability to properly monitor subrecipients in accordance with federal regulations.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should enhance controls over CAIS program change management such that the risks noted in the deficiencies above are reduced to an acceptable level that allows Education to properly monitor subrecipients in accordance with federal regulations.

Department's View and Corrective Action Plan

To enhance existing controls, in the spring 2011, Education created a CAIS Steering Committee to monitor and provide direction related to the use of the CAIS within WestEd's "Tracker "modules. Education also designated a single point of contact between WestEd and Education to improve overall communication by meeting regularly to discuss issues of concern to the CAIS Steering Committee. In addition, in regard to the conditions noted by the auditors, the following actions will be, or have been, taken:

1. Although a formal contract or Memorandum of Understanding (MOU) between Education and WestEd was not initiated specific to Tracker, the CAIS Steering Committee has engaged internal information technology resources to assist in mitigating the risk that changes made to

Tracker may negatively impact CAIS. In December 2011, Education will discuss with the SWCC and CACC, the feasibility of requesting WestEd to have a Service Organization Review of its management controls over Tracker.

2. The CAIS Steering Committee identified the evaluation of existing and expanded functionality of the system as a critical issue and plans to resolve this matter through the establishment of a technical advisory committee. In spring 2012, the technical advisory committee will develop a process for reviewing requests for functionality and creating a tracking system to monitor such requests. The CAIS Steering Committee has engaged with internal information technology resources to assist with the issues raised relating to backup copies of the database.

3. The CAIS Steering Committee requested additional information from WestEd to identify pending changes and updates to Tracker. The CAIS Steering Committee also requested assistance from internal information technology resources to advise the technical advisory committee on the development of best practices to review change requests and establish a priority system for such requests by spring 2012. The designated point of contacts within WestEd and Education meet regularly to discuss these issues and Education plans to network with other states using Tracker to obtain feedback on best practices related to change requests.

4. The CAIS Steering Committee plans to resolve production system change issues through the establishment of a technical advisory committee to create protocols in December 2011. The CAIS Steering Committee also requested assistance from internal information technology resources to advise the technical advisory committee on the development of best practices related to user testing. The designated point of contacts with WestEd and Education meet regularly to discuss these issues and will continue to work to improve communication related to this matter.

Current Year Reference Number:	2011-13-9
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education— Basic Grants to States
Federal Award Numbers and Years:	V048A100005; 2010 V048A090005; 2009 V048A080005; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart B—Audits, Section ___.210—Subrecipient and vendor determinations

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

(1) Determines who is eligible to receive what federal financial assistance;

(2) Has its performance measured against whether the objectives of the federal program are met;

(3) Has responsibility for programmatic decision making;

(4) Has responsibility for adherence to applicable federal program compliance requirements; and

(5) Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS—Sec. 7502. Audit requirements; Exemptions

(f)(2) Each pass-through entity shall –

(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;

(B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity; and

(D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

Condition

Similar to an issue we reported for year ended June 30, 2010, Education is not properly monitoring the Board of Governors of the California Community Colleges (CCC) use of Career and Technical Education—Basic Grants to States (CTE) program funds. Education had considered its relationship with the CCC to be that of a vendor, therefore, was not monitoring the CCC's use of CTE funds even though Education's interagency agreement with the CCC defines a subrecipient relationship. For fiscal year 2011–12, Education has added a monitoring clause to interagency contracts with the CCC, however, Education has not yet begun monitoring the CCC's use of the CTE funds.

During the fiscal year ended June 30, 2011, Education disbursed $62,364,915 to CCC, which represents 50% of the total award funds disbursed for the fiscal year ended June 30, 2011.

Thus, Education is not in compliance with the subrecipient monitoring requirements of OMB Circular A-133 as it relates to CCC.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should enhance its policies and procedures to ensure that subrecipient and vendor relationships are properly identified in order to ensure that all subrecipients are properly included in Education's subaward monitoring activities.

Department's View and Corrective Action Plan

As reported by the auditors, Education has enhanced its policies and procedures by adding a monitoring clause to its interagency contracts with the CCC. In addition, in January 2012, Education will meet with the new Dean of Career Education Practices at CCC to finalize and implement the process of the ongoing monitoring of CCC's use of CTE funds.

Reference Number:	2011-13-10
Federal Catalog Numbers:	84.377, 84.388
Federal Program Titles:	School Improvement Grants Cluster: School Improvement Grants, and School Improvement Grants, Recovery Act
Federal Award Numbers and Years:	S377A100005; 2010 S388A090005A; 2009 S377A090005A; 2009 S377A080006; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Sec. 7502—Audit requirements; Exemptions

(f)(2) Each pass-through entity shall—

(B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

Condition

During our information gathering to gain an understanding of the internal controls over the administration of the School Improvement Grant (SIG) program, it was noted that Education does not monitor subrecipients for their use of program funds through site visits, limited scope audits, or other means. Education did not design and implement a monitoring process prior to the receipt of the grant.

By not properly monitoring subrecipients for their use of SIG funds through site visits, limited scope audits, or other means, Education cannot ensure that subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should enhance its subrecipient monitoring policy to ensure that subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Department's View and Corrective Action Plan

Education plans to enhance monitoring over SIG sub-grantees by implementing new fiscal and programmatic processes.

Fiscal Monitoring:

On-site monitoring of SIG sub-grantees will commence in December 2011 through Education's Federal Program Monitoring (FPM) process; additional monitoring will also be scheduled outside of the FPM process. Education will require SIG sub-grantees to submit quarterly

expenditure reports for the duration of their sub-grant awards. The expenditure reports will be reviewed for reasonableness and to ensure that each school has expended at least 75 percent of the SIG funds before receiving more SIG funding.

Programmatic Monitoring:

To ensure compliance and implementation of proposed SIG program activities, Education developed implementation charts to track local educational agencies (LEAs) progress and timelines. In addition, over a three-year grant period, Education will conduct a minimum of one site visit at SIG-funded LEAs to verify implementation; LEAs will be required to submit evidence of compliance with grant requirements.

Education also will require LEAs to submit SIG program data annually. The required data includes: (1) a description of the intervention the school used (i.e., turnaround, restart, school closure, or transformation); (2) the number of minutes within the school year; (3) the average scale scores on State assessments in reading/language arts and mathematics, by grade, for all student groups, for each achievement quartile, and for each subgroup; (4) the number and percentage of students completing advanced coursework (e.g., Advanced Placement (AP)/ International Baccalaureate (IB)); (5) lists of early-college high schools, or dual enrollment classes; and (6) the teacher attendance rate. Education will also require LEAs to submit initial baseline data in addition to the yearly data.

To monitor LEAs' achievement of their annual school goals, such as student achievement on the State's Elementary and Secondary Education Act (ESEA) assessments in both reading/ language arts and mathematics, and progress on the leading indicators described in the final requirements, Education will annually assess LEAs' progress on student achievement for each of its Tier I and Tier II schools to determine renewal of SIG funds.

Reference Number:	2011-14-5
Federal Catalog Number:	84.388
Federal Program Title:	School Improvement Grants Cluster: School Improvement Grants, Recovery Act
Federal Award Number and Year:	S388A090005A; 2009
Category of Finding:	Special Tests & Provisions
State Administering Department:	Department of Education (Education)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, CHAPTER I—U.S.OFFICE OF MANAGEMENT AND BUDGET GOVERNMENTWIDE GUIDANCE FOR GRANTS AND AGREEMENTS, PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, Subpart D—Single Audit Information for Recipients of Recovery Act Funds

Section 176.210 Award term—Recovery Act transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients.

(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

Condition

During our testing of the Special Tests and Provisions compliance requirement, including discussions with program management, we noted that Education is not identifying to each of its subrecipients, and documenting at the time of subaward the federal award number, CFDA number, and amount of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds. Also, at the time of disbursement of Recovery Act funds, Education is not informing each subrecipient the federal award number, CFDA number, and the amount of Recovery Act funds. Education was not aware of the additional Recovery Act requirements regarding subrecipient notification of award information at the time of award and at the time of disbursement.

Education's Section 1512 reporting for the quarter ended June 30, 2011, reflected expenditures totaling $67,540,741 being passed-through to subrecipients, which represents 19 percent of the total Recovery Act award to Education.

By not properly informing its subrecipients of the federal award number, CFDA number, and the amount of Recovery Act funds, there is a risk that subrecipients may not be identifying and properly accounting for and reporting Recovery Act funds. This may result in reducing Education's ability to properly monitor the subrecipients expenditure of Recovery Act funds, as well as, assisting in any oversight by the federal awarding agency, Office of Inspector General and the Government Accountability Office.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should revise its current practices to conform with the requirements set forth in 2 CFR, Section 176.210. Management should design internal controls to ensure that such controls are operating effectively to ensure ongoing compliance with the aforementioned compliance requirements.

Department's View and Corrective Action Plan

Effective September 2011, Education revised its AO-400 grant award form and instructions to ensure conformance with the requirements set forth in 2 CFR, Section 176.210, including the identification of the federal award numbers, CFDA numbers, and the amount of Recovery Act funds. The U.S. Department of Education (ED) found Education's internal controls of tracking grant award allocations separately, and the reporting of Recovery Act 1512 data using its Standardized Account Code Structure resource codes adequate to avoid confusion when accounting between Recovery Act and regular funds.

Given the fact that all Recovery Act funds have already been distributed, Education does not consider it cost beneficial to make further changes to Grant Award Notification letters. Moreover, ED's Office of Special Education and Rehabilitative Services (SERS) issued a program determination addressing the same condition for another federal program; ED did not require Education to modify Grant Award Notification letters in order to comply with Recovery Act reporting requirements.

Auditor's Comments on Department's View

Per our conversation with ED's Office of Special Education and Rehabilitative Services (SERS) that issued the determination letter dated September 30, 2011, as referenced above, the determination letter solely applies to the Special Education Cluster grants as SERS has no authority over the School Improvement Grants. However, as Education has included it as precedent in the response above, we respond as follows:

We agree with ED and Education that it is ineffective to modify the AO-400 grant award form given that all Recovery Act funds have been awarded. Per our conversation with SERS, ED agreed that this does not, however, preclude Education from providing the appropriate notifications given that subrecipients have one final Single Audit report for the fiscal year ending June 30, 2012, that will include expenditures of Recovery Act funds.

Also per our conversation with ED, while the determination letter did not require further revisions to the AO-400 grant award form, it did not consider the issue of proper notification to subrecipients at the time of disbursement to be resolved and closed. This finding does not take issue with Education's method of separately tracking Recovery Act funds for Education's recordkeeping. This finding is with regard to properly notifying subrecipients at the time of award and at the time of disbursement so that subrecipient records can properly track Recovery Act funds separate from other award funds.

Current Year Reference Number:	2011-14-7
Federal Catalog Numbers:	84.391, 84.392
Federal Program Titles:	Special Education Cluster (IDEA): Special Education—Grants to States,Recovery Act and Special Education—Preschool Grants, Recovery Act.
Federal Award Numbers and Years:	H391A090116A; 2009 H392A090120A; 2009
Category of Finding:	Special Tests & Provisions
State Administering Department:	Department of Education (Education)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, CHAPTER I—OFFICE OF MANAGEMENT AND BUDGET GOVERNMENTWIDE GUIDANCE FOR GRANTS AND AGREEMENTS, PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, Subpart D—Single Audit Information for Recipients of Recovery Act Funds

Section 176.210 Award term—Recovery Act transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients.

(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

Condition

Similar to a finding reported in the prior year, during our testing of the Special Tests and Provisions compliance requirement, including discussions with program management, we noted that Education had not identified to each of its American Recovery and Reinvestment Act (Recovery Act) subrecipients and documented at the time of subaward the federal award number. At the time Education was notified of this deficiency, it was noted that there would be no further awards of Recovery Act grants to subrecipients. However, Education did not take action to subsequently notify existing subrecipients of the required information. Also, at the time of disbursement of Recovery Act funds, Education is not informing each subrecipient the federal award number, CFDA number, and the amount of Recovery Act funds.

Education's fourth quarter Section 1512 reporting reflected expenditures totaling $1,128,433,193 being passed-through to subrecipients, which represents 89 percent of the total Recovery Act award to Education.

By not properly informing its subrecipients of the federal award number, CFDA number, the amount of Recovery Act funds, there is a risk that subrecipients may not be identifying and properly accounting and reporting Recovery Act funds. This may result in reducing Education's ability to properly monitor the subrecipients expenditure of Recovery Act funds, as well as, assisting in any oversight by the federal awarding agency, Office of Inspector General and the Government Accountability Office.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should revise its current practices to conform with the requirements set forth in 2 CFR, Section 176.210. Management should design internal controls to ensure that such controls are operating effectively to ensure ongoing compliance with the aforementioned compliance requirements.

Department's View and Corrective Action Plan

Education does not disagree with this finding. Effective September 2011, Education revised its AO-400 grant award form and instructions to ensure conformance with the requirements set forth in 2 CFR, Section 176.210, including the identification of the federal award numbers, CFDA numbers, and the amount of Recovery Act funds.

Given the fact that all IDEA Part B Recovery Act funds have already been distributed, the U.S. Department of Education's (ED) September 30, 2011, program determination letter found no compelling reason to require Education to make further changes to its Grant Award Notification in order to comply with Recovery Act reporting requirements. Furthermore, ED found Education's internal controls of tracking grant award allocations separately, and the reporting of Recovery Act 1512 data using its Standardized Account Code Structure resource codes adequate to avoid confusion when accounting for Individuals with Disabilities Education Act (IDEA) Part B Recovery Act funds separately from regular IDEA Part B funds. The ED's Assistant Secretary required no further corrective action and considered this condition to be resolved and closed.

Auditor's Comments on Department's View

We agree with ED and Education that it is ineffective to modify the AO-400 grant award form given that all Recovery Act funds have been awarded. Per our conversation with ED's Office of Special Education and Rehabilitative Services that issued the determination letter dated September 30, 2011 as referenced above, ED agreed that this does not, however, preclude Education from providing the appropriate notifications given that subrecipients have one final Single Audit report for the fiscal year ending June 30, 2012, that will include expenditures of Recovery Act funds.

Also, per our conversation with ED, while the determination letter did not require further revisions to the AO-400 grant award form, it did not consider the issue of proper notification to subrecipients at the time of disbursement to be resolved and closed. This finding does not take issue with Education's method of separately tracking Recovery Act funds for Education's record keeping. This finding is with regard to properly notifying subrecipients at the time of award and at the time of disbursement so that subrecipient records can properly track Recovery Act funds separate from other award funds.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2011-7-8
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Numbers and Years:	2B08TI010005-11; 2010 2B08TI010005-10; 2009
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, Part B—Block Grants Regarding Mental Health and Substance Abuse, Subpart ii—Block Grants for Prevention and Treatment of Substance Abuse, Section 300x-30—Maintenance of Effort Regarding State Expenditures

(a) In general

With respect to the principal agency of a State for carrying out authorized activities, a funding agreement for a grant under section 300x-21 of this title for the State for a fiscal year is that such agency will for such year maintain aggregate State expenditures for authorized activities at a level that is not less than the average level of such expenditures maintained by the State for the two-year period preceding the fiscal year for which the State is applying for the grant.

(c) Waiver

(1) In general

Upon the request of a State, the Secretary may waive all or part of the requirement established in subsection (a) of this section if the Secretary determines that extraordinary economic conditions in the State justify the waiver

TITLE 45—PUBLIC WELFARE, Part 96—BLOCK GRANTS, Subpart L—Substance Abuse Prevention and Treatment Block Grant, Section 96.134—Maintenance of Effort Regarding State Expenditures

(a) With respect to the principal agency of a State for carrying out authorized activities, the agency shall for each fiscal year maintain aggregate State expenditures by the principal agency for authorized activities at a level that is not less than the average level of such expenditures maintained by the State for the two-year period preceding the fiscal year for which the State is applying for the grant. The block grant shall not be used to supplant State funding of alcohol and other drug prevention and treatment programs.

Condition

ADP did not maintain the required level of aggregate State expenditures in fiscal year 2010–11. Specifically, ADP reported a maintenance of effort (MOE) shortfall of $37,426,500, which is based on an MOE level that is calculated as the average expenditures from the two prior fiscal years—2008–09 and 2009–10. ADP acknowledges that it did not meet the MOE requirement.

In requesting the waiver from the U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration (SAMHSA), ADP stated that the extraordinary decline in tax revenues in state fiscal year 2008–09 resulted in significant state budget deficits. The State's constitution requires a balanced budget and therefore, for state fiscal year 2009–10, the Governor

proposed and the Legislature acted upon numerous means to balance the budget, including program savings, increasing savings targets, instituting program reforms, reductions in education funding, increasing targeted fees, borrowing, and eliminating funding for some programs, which ADP administers. Because these funding cuts flowed through ADP through the fiscal year ended June 30, 2011, they were part of its MOE calculation. Complete elimination of the Substance Abuse and Crime Prevention Act (Prop. 36) in large part resulted in the MOE shortfall.

ADP is not in compliance with the MOE requirement and risks a reduction to its future SAPT funding. ADP submitted the waiver request in October 2011 and SAMHSA has 120 days to make a waiver determination.

Questioned Costs

No specific questioned costs identified.

Recommendation

ADP should continue to follow up with SAMHSA regarding its waiver request.

Department's View and Corrective Action Plan

ADP agrees with the finding and recommendation that ADP did not maintain the required level of aggregate state expenditures in fiscal year 2010–11, and should continue to follow up with SAMHSA regarding its waiver request.

The principal agency of a State for carrying out authorized activities, shall for each fiscal year maintain aggregate expenditures by the principal agency at a level that is not less than the average level of such expenditures maintained by the State for the two year period preceding the fiscal year for which the State is applying for the grant. As such, the elimination of funding in previous fiscal years continued to impact ADP's MOE calculation in fiscal year 2010–11.

As a result of the budget shortfall, and in compliance with Title 45, Code of Federal Regulations, (CFR) Part 96, Section 96.134(b), ADP submitted an MOE Waiver request, for reason of extraordinary economic conditions, to the Substance Abuse and Mental Health Administration (SAMHSA) on October 18, 2011. The statute and regulation require the Secretary of the U.S. Department of Health and Human Services to approve or deny a State's request for waiver not later than 120 days after the date on which the request is made.

ADP will continue to follow up with SAMHSA regarding the waiver request.

Reference Number:	2011-13-5
Federal Catalog Numbers:	93.575, 93.596, and 93.713
Federal Program Titles:	CCDF Cluster: Child Care and Development Block Grant; Child Care Mandatory and Matching Funds of the Child Care and Development Fund; and Child Care and Development Block Grant, Recovery Act

Federal Award Numbers and Years:	G1001CACCDF; 2010 G0901CACCD7; 2009 G0901CACCDF; 2009 G0801CACCDF; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

(f)(2) Each pass-through entity shall:

(B) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means.

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Reports, Records Retention, and Enforcement, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

As in the case of a similar condition we reported for fiscal year 2009–10, we reviewed the support for the follow-up by the Federal Program Monitoring Unit (FPM—formerly Categorical Monitoring) to ensure corrective action on deficiencies noted during FPM's reviews of local educational agencies (LEAs). We tested 23 of the 25 FPM onsite and online reviews completed during the year. We noted the number of days between the Notice of Findings (NOF) and the Proposed Resolution of Findings of Noncompliance (PRFN). Education requires the LEAs to submit a PRFN within 45-days of the NOF date. Of the 23 reviews tested, one had a PRFN date more than 45 days subsequent to the NOF date. We noted that there were no communications from Education to that LEA regarding the delinquency of the PRFN submission. We also noted the number of days between the NOF date and the receipt of the corrective actions that resulted in all deficiencies being resolved. Education requires the LEAs to allow reasonable time to resolve all deficiencies within 225 days of the NOF date. Of the 23 reviews tested, two had an unresolved status of more than 225 days subsequent to the NOF date. Upon further review, one of those two LEAs had not yet submitted its corrective actions for all deficiencies noted during the review. The second LEA had submitted corrective actions for the deficiencies noted during the review within the 225-day period; however, Education had not resolved the deficiencies within the 225-day period.

The delayed resolution of outstanding monitoring deficiencies appears to be due to a combination of delayed follow up and ineffective sanctions imposed by Education on the LEAs for belated implementation of corrective action plans. Without effective consequences for the delays, LEAs do not have an incentive to implement corrective actions in a timely manner.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should enhance its current monitoring policies and procedures to ensure that LEAs implement promptly the proposed corrective actions on deficiencies noted during monitoring reviews and that consequences for delayed resolutions are effective for deterring such noncompliance. In addition, once it receives corrective action documents from LEAs, Education should be more prompt in resolving deficiency issues.

Department's View and Corrective Action Plan

To improve federal program monitoring, the FPM Office is implementing new functionalities in the Web-based on-line California Accountability and Improvement System (CAIS). The new electronic functionalities will replace paper-based processes to increase the effectiveness of monitoring the LEAs' resolution of findings. Currently, the resolution of findings process is conducted by using a paper system that is initiated by the LEA, uploaded to CAIS, and then reviewed by FPM Office staff. The new CAIS functionalities will provide FPM Office staff real-time compliance resolution tracking functions and access to LEA data such as the status of corrective actions taken to resolve identified deficiencies. As part of this improvement process, the FPM Office refined the monitoring protocols, and will: (1) provide program managers monthly updates on the resolution of findings; and (2) train staff on the use of CAIS' finding resolution process.

On an annual basis, Education submits for conditional approval LEAs with outstanding findings over 225 days to the State Board of Education. Education will continue this practice as a means to encourage LEAs to resolve findings in a timely matter. Furthermore, to encourage LEAs to resolve findings within the 225 day time frame, Education plans to post select findings on the Education Web site beginning in Spring 2012.

Reference Number:	2011-13-6
Federal Catalog Numbers:	93.575, 93.596, and 93.713
Federal Program Titles:	Child Care Development Fund Cluster: Child Care and Development Block Grant; Child Care Mandatory and Matching Funds of the Child Care and Development Fund; and Child Care and Development Block Grant, Recovery Act Funded
Federal Award Numbers and Years:	G1001CACCDF; 2010 G0901CACCD7; 2009 G0901CACCDF; 2009 G0801CACCDF; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart C—Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition

Education uses a third-party application called WestEd Tracker (Tracker). This system was designed and is maintained by WestEd, a nonprofit public research and development agency. Tracker has two primary modules: Program Monitoring and Improvement Planning. The Federal Program Monitoring (FPM) unit of Education uses the Program Monitoring module, referred to as CAIS (California Accountability and Improvement System), to facilitate Federal and State program monitoring. The use of CAIS was implemented during the fiscal year ended June 30, 2010, during the pilot phase of transitioning from a paper based monitoring system to an electronic based system. Since implementation there have been multiple changes to the program code as end user functionality was enhanced and customized for use in subrecipient monitoring. Therefore, we assessed the controls over application change management and noted the following:

1. Tracker was developed by WestEd through the Southwest Comprehensive Center (SWCC) and the California Comprehensive Center (CACC), in collaboration with other state Departments of Education. Education does not have a contract or service level agreement with WestEd over the management of Tracker. This increases the risk that changes may be made to Tracker or the maintenance of Tracker may affect the accuracy, integrity and availability of the CAIS database. Education should consider working with the SWCC and CACC to develop a service level agreement with WestEd for the use, maintenance and enhancements of Tracker. Additionally, Education, working with the SWCC and CACC, should request that WestEd have a Service Organization Review performed over their management controls of the Tracker application, in accordance with Statement on Standards for Attestation Engagements Number 16. We consider this to be a *significant deficiency*.

2. Education has little say in how Tracker is managed or what functionality it has or will have. Education is a user of a service provided by the CACC. This may impact Education if changes are made to the application that have a negative impact. Education must evaluate all implemented changes to Tracker in order to properly maintain records and controls in compliance with the approved FPM Subrecipient Monitoring Protocols (FPM Protocols). There is also little recourse for the Education if Tracker adversely impacts monitoring efforts. In order to ensure that monitoring documents and materials are kept available, Education may want to consider maintaining their own backup copies of the database. Education may also want to consider documenting its analysis of implemented changes and conclusions as to the impact of those changes on maintaining compliance with FPM Protocols and resulting changes to FPM Protocols, if any. We consider this to be a *significant deficiency*.

3. Education is not generally aware of changes or updates to the application that are being considered or developed by WestEd. This places Education at increased risk of changes being applied to the application that may not be beneficial or may affect their ability to properly maintain records and controls in compliance with the approved FPM Protocols. Education should consider requesting that WestEd maintain an online log of planned changes to the application and their status in the development process. Additionally, Education should work to establish a service level agreement with WestEd to ensure that announcements of changes are made with enough advance notice so that Education's subrecipient users can be properly notified. We consider this to be a *significant deficiency*.

4. After planned changes are developed and tested within WestEd, the release is made available to Education users on PMT.WestEd.org Web site for user testing. WestEd should make greater effort to communicate the planned changes to Education and provide sufficient time for end-user acceptance testing before applying the changes to the production system. Standard test scripts should be used by Education to evaluate the release and ensure that program changes do not adversely affect the application functions. Education should work with WestEd to develop a set of test scripts that should be used whenever program changes are being made. We consider this to be a *significant deficiency*.

The overall risk to Education is that the current change controls over Tracker give rise to a higher risk of noncompliance with established FPM Protocols and therefore, to Education's ability to properly monitor subrecipients in accordance with Federal regulations.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should enhance controls over CAIS program change management such that the risks noted in the deficiencies above are reduced to an acceptable level that allows Education to properly monitor subrecipients in accordance with federal regulations.

Department's View and Corrective Action Plan

To enhance existing controls, in the spring 2011, Education created a CAIS Steering Committee to monitor and provide direction related to the use of the CAIS within WestEd's "Tracker" modules. Education also designated a single point of contact between WestEd and Education to improve overall communication by meeting regularly to discuss issues of concern to the CAIS Steering Committee. In addition, in regard to the conditions noted by the auditors, the following actions will be, or have been, taken:

1. Although a formal contract or Memorandum of Understanding (MOU) between Education and WestEd was not initiated specific to Tracker, the CAIS Steering Committee has engaged internal information technology resources to assist in mitigating the risk that changes made to Tracker may negatively impact CAIS. In December 2011, Education will discuss with the SWCC and CACC, the feasibility of requesting WestEd to have a Service Organization Review of its management controls over Tracker.
2. The CAIS Steering Committee identified the evaluation of existing and expanded functionality of the system as a critical issue and plans to resolve this matter through the establishment of a technical advisory committee. In spring 2012, the technical advisory committee will develop a process for reviewing requests for functionality and creating a tracking system to monitor such requests. The CAIS Steering Committee has engaged with internal information technology resources to assist with the issues raised relating to backup copies of the database.
3. The CAIS Steering Committee requested additional information from WestEd to identify pending changes and updates to Tracker. The CAIS Steering Committee also requested assistance from internal information technology resources to advise the technical advisory committee on the development of best practices to review change requests and establish a priority system for such requests by spring 2012. The designated point of contacts within WestEd and Education meet regularly to discuss these issues and Education plans to network with other states using Tracker to obtain feedback on best practices related to change requests.
4. The CAIS Steering Committee plans to resolve production system change issues through the establishment of a technical advisory committee to create protocols in December 2011. The CAIS Steering Committee also requested assistance from internal information technology resources to advise the technical advisory committee on the development of best practices related to user testing. The designated point of contacts with WestEd and Education meet regularly to discuss these issues and will continue to work to improve communication related to this matter.

Current Year Reference Number:	2011-14-4
Federal Catalog Number:	93.713
Federal Program Title:	Child Care Development Fund Cluster: ARRA—Child Care and Development Block Grant
Federal Award Number and Year:	G0901CACCD7; 2009
Category of Finding:	Special Tests & Provisions
State Administering Department:	Department of Education (Education)

Criteria

TITLE 2-GRANTS AND AGREEMENTS, CHAPTER I—OFFICE OF MANAGEMENT AND BUDGET GOVERNMENTWIDE GUIDANCE FOR GRANTS AND AGREEMENTS, PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, Subpart D—Single Audit Information for Recipients of Recovery Act Funds

Section 176.210 Award term—Recovery Act transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients.

(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

Condition

During our testing of the Special Tests and Provisions compliance requirement, including discussions with program management, we noted that Education is not identifying to each of its subrecipients, and documenting at the time of subaward the federal award number. Also, at the time of disbursement of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds, Education is not informing each subrecipient the federal award number, CFDA number, and amount of Recovery Act funds.

Education's fourth quarter Section 1512 reporting reflected expenditures totaling $187,831,959 being passed-through to subrecipients, which represents 85 percent of Education's total Recovery Act award.

By not properly informing its subrecipients of the federal award number, CFDA number, and the amount of Recovery Act funds, there is a risk that subrecipients may not be identifying and properly accounting and reporting Recovery Act funds in accordance with 2 CFR, Section 176.210 requirements. This may result in reducing Education's ability to properly monitor the subrecipients expenditure of Recovery Act funds, as well as, assisting in any oversight by the federal awarding agency, Office of Inspector General and the Government Accountability Office.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should revise its current practices to conform with the requirements set-forth in 2 CFR, Section 176.210. Management should design internal controls to ensure that such controls are operating effectively to ensure ongoing compliance with the aforementioned compliance requirements.

Department's View and Corrective Action Plan

Education does not disagree with this finding. However, given the fact that all Recovery Act funds have already been distributed, Education does not consider it cost beneficial to require staff to make further changes to its Direct Service Agreements and Standard Agreements in regard to monitoring and overseeing Recovery Act funds. Education contends that existing internal controls of tracking grant award allocations separately, and the reporting of Recovery Act 1512 data using Standardized Account Code Structure resource codes to be adequate in avoiding confusion when accounting between Recovery Act and regular funds.

Auditor's Comments on Department's View

We agree that it is ineffective to modify agreements given that all Recovery Act funds have been awarded. This does not, however, preclude Education from providing the appropriate notifications given that subrecipients have one final Single Audit report for the fiscal year ending June 30, 2012, that will include expenditures of Recovery Act funds.

We would also note that this finding does not take issue with Education's method of separately tracking Recovery Act funds for Education's recordkeeping. This finding is with regard to properly notifying subrecipients at the time of award and at the time of disbursement so that subrecipient records can properly track Recovery Act funds separate from other award funds.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Reference Number:	2011-4-1
Federal Catalog Number:	14.258
Federal Program Title:	Tax Credit Assistance Program (Recovery Act Fund)
Federal Award Number and Year:	M09-ES060100; 2009
Category of Finding:	Davis–Bacon
State Administering Department:	Office of the State Treasurer (Treasurer)

Criteria

TITLE 29—LABOR, PART 5—LABOR STANDARDS PROVISIONS APPLICABLE TO CONTRACTS COVERING FEDERALLY FINANCED AND ASSISTED CONSTRUCTION, Subpart A—Davis-Bacon and Related Acts Provisions and Procedures, Section 5.5—Contract provisions and related matters

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of $2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in Section 5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, provided that such modifications are first approved by the Department of Labor):

(3) Payrolls and basic records.

(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the agency if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the agency. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number). The required weekly payroll information may be submitted in any form desired. Optional Form WH-347 is available for this purpose from the Wage and Hour Division Web site at http://www.dol.gov/esa/whd/forms/wh347instr.htm or its successor site. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors. Contractors and subcontractors shall maintain the full social security number and current address of each covered worker, and shall provide them upon request to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit them to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency), the contractor, or the Wage and Hour Division of the Department of Labor for purposes of an investigation or audit of compliance with prevailing wage requirements. It is not a violation of this section for a prime contractor to require a subcontractor to provide addresses and social security numbers to the prime contractor for its own records, without weekly submission to the sponsoring government agency (or the applicant, sponsor, or owner).

(B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

(1) That the payroll for the payroll period contains the information required to be provided under Sec. 5.5 (a)(3)(ii) of Regulations, 29 CFR part 5, the appropriate information is being maintained under Sec. 5.5 (a)(3)(i) of Regulations, 29 CFR part 5, and that such information is correct and complete;

(2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;

(3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.

Condition

During our review of the Treasurer's compliance with Davis–Bacon, we noted that the Treasurer does not require the participants to submit certified payrolls, but rather to keep them on file for on-site monitoring. While the Treasurer has contracted with a Davis–Bacon expert to review those certified payrolls, the requirement expressly states that the certified payrolls are to be submitted to the agency on a weekly basis. The Treasurer was unaware that the requirement expressly stated that they must receive the certified payrolls.

Questioned Costs

No specific questioned costs identified.

Recommendation

The Treasurer should revise its current practice to require that certified payrolls be submitted to them on a weekly basis per the Davis–Bacon requirement.

Department's View and Corrective Action Plan

The Tax Credit Allocation Committee (TCAC) was awarded the Tax Credit Assistance Program (TCAP) grant in July of 2009 through the American Recovery and Reinvestment Act of 2009. The TCAP funds are subject to Davis Bacon federal prevailing wage requirements. To ensure proper oversight and monitoring of the prevailing wage requirements, TCAC entered into a contract with an outside firm with expertise in Davis Bacon laws. TCAC developed and discussed the monitoring and oversight strategy for Davis Bacon prevailing wage compliance with the Department of Housing and Urban Development (HUD). HUD agreed that the monitoring strategy was acceptable. TCAC required each project owner to maintain copies of the weekly certified payroll reports for three years, however, TCAC did not require each owner to send copies of the payroll reports to TCAC weekly. TCAC agrees that the reports should have been collected from the project owners weekly and that TCAC must also maintain copies of the reports for three years. TCAC awarded 52 TCAP loans, of which 49 were subject to Davis Bacon laws. To date TCAC has collected all payrolls for 44 of the 49 projects and anticipates the remaining five will be collected the week of November 7, 2011. TCAC will keep the payroll reports on file for a period of three years. In addition, TCAC has revised its current practice and is now collecting the payroll reports on a weekly basis for the 21 TCAP projects that are currently in the construction phase.

State Controller's Office

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U.S. ENVIRONMENTAL PROTECTION AGENCY

Reference Number:	2011-2-2
Federal Catalog Number:	66.468
Federal Program Title:	Capitalization Grants for Safe Drinking Water State Revolving Fund and ARRA-Capitalization Grants for Safe Drinking Water State Revolving Fund
Federal Award Number and Year:	FS98934910; 2010 FS98934909; 2009
Category of Finding:	Allowable Costs/Costs Principles
State Administering Department:	California Department of Public Health

Criteria

Title 2, *Code of Federal Regulations,* Part 225 (2 CFR 225) requires CDPH to reduce the SDWSRF federal grant reimbursements by the amounts received from the water systems. Appendix A, Subpart (C)(l)(i), states, "To be allowable under Federal awards, costs must ... be the net of all applicable credits." Appendix A, Subpart (C)(4)(a), states, "Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards...."

Condition

The Safe Drinking Water Program provides water system supports and engineering services to various water systems throughout California. The program is funded by state appropriations, federal grants, and water systems that are charged a fee for the services rendered by the program. Program employees account for the time they spend providing services to each water system using timesheets. The program then enters the time into the California Department of Public Health (CDPH) time accounting system. CDPH's time accounting system is used to report expenses for the SDWSRF grant and to capture billable hours for services rendered to the water systems. During our audit, we noted that CDPH had used two different time accounting output reports in the preparation of local water system invoices and federal grant requests, as a result some of the employee hours charged to the SDWSRF federal grant were also billed to the water systems. By receiving reimbursement from both the federal grant and the water systems, CDPH received revenue twice for the same expenditure.

A sample of 40 employee timesheets were tested, totaling 6,288 hours. Twenty-four of the timesheets tested contained an estimate of 775 hours that were expensed to the SDWSRF federal program and also billed to the water systems, resulting in a projected error rate of 12.33 percent (775/6,288). The total known questioned direct labor costs are approximately $43,600.

CDPH was not aware that it was expensing payroll costs that were also being billed to the water systems. The error was partially due to CDPH improperly programming its time accounting system. The SDWSRF program has a process in place to review payroll expenditures of the program to ensure that only allowable payroll expenditures are being charged to the program. During our audit, we noted that the last review by CDPH was performed in September 2010. Had this process been in place, CDPH may have discovered and corrected the error.

Questioned Costs

The total known questioned direct labor costs are approximately $43,600.

Recommendation

CDPH should ensure that payroll hours billed to the water systems are not included as SDWSRF payroll expenditures. Correction of this problem will likely require reprogramming the time accounting system. Although timesheets are properly reviewed by supervisors, CDPH should reinstitute the internal control procedures of reviewing payroll expenditures charged to the SDWSRF program.

Department's View and Corrective Action Plan

CDPH agrees that payroll hours billed to the water system should not be included as SDWSRF payroll expenditures. Correcting the problem will require reprogramming the Time Accounting System (TAS) and CDPH has started correcting the TAS Database to ensure payroll expenditures are applied correctly. CDPH expects to complete the correction by March 30, 2012.

CDPH agrees that the internal control procedures should be reinstituted. Effective March I, 2012, SDWSRF will reinstitute reviewing payroll expenditures charged to the program on a monthly basis followed by supervisory review. We have trained additional staff to help review the monthly payroll expenditures.

Auditor's Comments on Department's View

CDPH concurs with our finding and recommendation. We acknowledge CDPH's intent to implement our recommendation.

AUDITEE'S SECTION

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Schedule of Expenditures of Federal Awards

Prepared by Department of Finance

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STATE OF CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2011

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Non-ARRA Expenditures		ARRA Expenditures
Department of Agriculture					
Plant and Animal Disease, Pest Control, and Animal Care	10.025		$ 68,982		
Wildlife Services	10.028		16,405		
ARRA-Aquaculture Grants Program (AGP), Recovery Act Funded	10.086				$ 59
2009 Aquaculture Grant Program	10.103		454,218		
Market Protection and Promotion	10.163		501,404		
Farm Labor Housing Loans and Grants	10.405		4,201,173		
Food Safety Cooperative Agreements	10.479		988,692		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		1,178,079,566		
Child and Adult Care Food Program	10.558		263,753,033		
State Administrative Expenses for Child Nutrition	10.560		25,109,172		
Commodity Supplemental Food Program	10.565		5,120,286	*	
WIC Farmers' Market Nutrition Program (FMNP)	10.572		2,257,611		
Team Nutrition Grants	10.574		(1,328)		
Senior Farmers Market Nutrition Program	10.576		686,269		
ARRA-WIC Grants To States (WGS)	10.578				3,392,301
Child Nutrition Discretionary Grants Limited Availability	10.579		1,008,907		
ARRA-Child Nutrition Discretionary Grants Limited Availability, Recovery Act Funded	10.579				(449,703)
Fresh Fruit and Vegetable Program	10.582		6,864,115		
Cooperative Forestry Assistance	10.664		4,861,000		
National Forest-Dependent Rural Communities	10.670		(503)		
Rural Development, Forestry, and Communitites	10.672			*	
Urban and Community Forestry Program	10.675		966,539		
Forest Legacy Program	10.676		2,418,069		
Forest Stewardship Program	10.678		1,971,314		
Forest Health Protection	10.680		185,076		
ARRA-Capital Improvement and Maintenance, Recovery Act	10.687				44,881
ARRA-Wildland Fire Management, Recovery Act Funded	10.688				4,689,777
Environmental Quality Incentives Program	10.912		44,242		
Long Term Standing Agreements for Storage, Transportation And Lease	10.999		76,100,231		
Total Excluding Clusters			1,575,654,473		7,677,315
SNAP Cluster					
Supplemental Nutrition Assistance Program	10.551			*	See Note 4
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		674,138,043		
ARRA-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, Recovery Act Funded	10.561				10,706,323
Total SNAP Cluster			674,138,043		10,706,323
Child Nutrition Cluster					
School Breakfast Program	10.553		369,183,196		
National School Lunch Program	10.555		1,405,751,990	*	
Special Milk Program for Children	10.556		430,788		
Summer Food Service Program for Children	10.559		22,881,156		
Total Child Nutrition Cluster			1,798,247,130		-
Emergency Food Assistance Cluster					
Emergency Food Assistance Program (Administrative Costs)	10.568		9,722,457		
ARRA-Emergency Food Assistance Program (Administrative Costs), Recovery Act Funded	10.568				6,733,097
Emergency Food Assistance Program (Food Commodities)	10.569			*	
ARRA-Emergency Food Assistance Program (Food Commodities), Recovery Act Funded	10.569				*
Total Emergency Food Assistance Cluster			9,722,457		6,733,097
Schools and Roads Cluster					
Schools and Roads - Grants to States	10.665		47,872,286		
Research & Development Cluster					
Plant and Animal Disease, Pest Control, and Animal Care	10.025		289,342		
Total Department of Agriculture			4,105,923,731		25,116,735

Department of Commerce					
Anadromous Fish Conservation Act Program	11.405		8,539		
Interjurisdictional Fisheries Act of 1986	11.407		141,093		
Coastal Zone Management Administration Awards	11.419		2,603,425		
Coastal Zone Management Estuarine Research Reserves	11.420		1,014,363		
Marine Sanctuary Program	11.429		60,084		
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	11.438		12,098,174		
Regional Fisheries Management Councils	11.441				
Pass-Through from Pacific Fisheries Management Councils		R0970004	192,941		
Unallied Management Projects	11.454		1,796,891		
Habitat Conservation	11.463		6,275,608		
Meteorologic and Hydrologic Modernization Development	11.467		1,251,388		
Applied Meteorological Research	11.468		183,327		
Unallied Science Program	11.472		98,000		
Public Safety Interoperable Communications Grant Program	11.555		25,362,686		
ARRA-State Broadband Data and Development Grant Program, Recovery Act Funded	11.558				1,075,395
Other - U.S. Department of Commerce	11.999		128,614		
Total Excluding Cluster			51,215,133		1,075,395
Research & Development Cluster					
Geodetic Surveys and Services (Geodesy and Applications of the National Geodetic Reference System)	11.400		293,998		
Coastal Zone Management Estuarine Research Reserves	11.420		84,924		
Unallied Science Program	11.472		8,925		
Total Research & Development Cluster			387,847		-
Total Department of Commerce			51,602,980		1,075,395
Department of Defense					
Planning Assistance to States	12.110		2,113,908		
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		15,357,647		
Basic and Applied Scientific Research	12.300		5,218		
National Guard Military Operations and Maintenance (O&M) Projects	12.401		61,703,564		
ARRA-National Guard Military Operations and Maintenance (O&M) Projects, Recovery Act Funded	12.401				1,652,237
National Guard ChalleNGe Program	12.404		8,531,036		
Other - U.S. Department of Defense	12.999		1,759,162		
Total Excluding Cluster			89,470,535		1,652,237
Research & Development Cluster					
Planning Assistance to States	12.110		1,674,135		
Air Force Defense Research Sciences Program	12.800		27,575		
Total Research & Development Cluster			1,701,710		-
Total Department of Defense			91,172,245		1,652,237
Department of Housing and Urban Development					
Manufactured Home Dispute Resolution	14.171		49,075		
Emergency Shelter Grants Program	14.231		6,194,254		
Supportive Housing Program	14.235			**	
Home Investment Partnerships Program	14.239		38,492,472	**	
Housing Opportunities for Persons with AIDS	14.241		2,927,151		
ARRA-Homelessness Prevention and Rapid Re-Housing Program, Recovery Act Funded	14.257				17,738,378
ARRA-Tax Credit Assistance Program, Recovery Act Funded	14.258				224,390,882
Equal Opportunity in Housing	14.400		2,219,359		
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		15		
Total Excluding Cluster			49,882,326		242,129,260
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228		68,228,416	**	
ARRA-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii, Recovery Act Funded	14.255				5,574,943
Total CDBG - State-Administered CDBG Cluster			68,228,416		5,574,943

Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	14.871	4,791,681	
Lead Hazard Control Cluster			
ARRA-Lead-Based Paint Hazard Control in Privately-Owned Housing, Recovery Act Funded	14.907		1,814,375
Total Department of Housing and Urban Development		122,902,423	249,518,578
Department of Interior			
Distribution of Receipts to State and Local Governments	15.227	70,925,767	
Environmental Quality and Protection Resource Management	15.236	318,651	
ARRA-Environmental Quality and Protection Resource Management, Recovery Act Funded	15.236		664,960
Coastal Impact Assistance Program (CIAP)	15.426	4,720,938	
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508	182,036	
Central Valley Project Improvement Act, Title XXXIV	15.512	4,517,737	
Fish and Wildlife Management Assistance	15.517	73,678	
ARRA-Fish and Wildlife Coordination Act, Recovery Act Funded	15.517		560,848
Central Valley Project, Trinity River Division, Trinity River Fish and Wildlife Management	15.532	121,942	
California Water Security and Environmental Enhancement	15.533	221,162	
Fish and Wildlife Management Assistance	15.608	216,504	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	968,243	
Cooperative Endangered Species Conservation Fund	15.615	27,992,789	
Clean Vessel Act	15.616	1,873,454	
Sportfishing and Boating Safety Act	15.622	264,682	
Wildlife Conservation and Restoration	15.625	775	
Coastal Program	15.630	489	
Landowner Incentive Program	15.633	179,620	
Challenge Cost Share	15.642	75,000	
Migratory Bird Conservation	15.647	132,834	
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648	198,359	
Earthquake Hazards Reduction Program	15.807	13,766	
U.S. Geological Survey-Research and Data Collection	15.808	166,609	
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	150	
National Cooperative Geologic Mapping Program	15.810	224,793	
National Geological and Geophysical Data Preservation Program	15.814	23,253	
Historic Preservation Fund Grants-In-Aid	15.904	1,297,038	
Outdoor Recreation-Acquisition, Development and Planning	15.916	2,666,021	
ARRA-Abandoned Mine Hazard Mitigation, Recovery Act Funded	15.934		404,191
ARRA-Redwood National Park Cooperative Management with the State of California, Recovery Act Funded	15.937		371,212
Other - U.S. Department of the Interior	15.999	7,213,206	
Total Excluding Clusters		124,589,496	2,001,211
Research & Development Cluster			
Challenge Cost Share	15.238	21,057	
Sport Fish Restoration Program	15.605	13,149,607	
Wildlife Restoration and Basic Hunter Education	15.611	12,240,160	
Cooperative Endangered Species Conservation Fund	15.615	2,445,551	
State Wildlife Grants	15.634	3,093,527	
Research Grants (Generic)	15.650	20,966	
Total Research & Development Cluster		30,970,868	-
Total Department of Interior		155,560,364	2,001,211
Department of Justice			
Law Enforcement Assistance-Narcotics and Dangerous Drugs Laboratory Analysis	16.001	40,993	
Sexual Assault Services Formula Program	16.017	428,357	
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	1,057,835	
Juvenile Accountability Block Grants	16.523	3,152,926	
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	2,356,505	
Title V - Delinquency Prevention Program	16.548	91,219	
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	468,866	

Crime Victim Assistance	16.575		42,424,070		
Crime Victim Compensation	16.576		32,479,611		
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		439,845		
Drug Court Discretionary Grant Program	16.585		101,922		
Violence Against Women Formula Grants	16.588		11,686,521		
ARRA-Violence Against Women Formula Grants, Recovery Act Funded	16.588			6,041,528	
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590				
Pass-Through from Contra Costa County (GTEA)		49002-02	23,035		
Pass-Through from Contra Costa County (GTEA)		19-662-0	5,140		
Pass-Through from Contra Costa County (CDS)		19-641-0	30,149		
Pass-Through from Contra Costa County (CDCSS)		C4539900	32,435		
Residential Substance Abuse Treatment for State Prisoners	16.593		776,740		
State Criminal Alien Assistance Program	16.606		88,106,548		
Bulletproof Vest Partnership Program	16.607		1,730,298		
Project Safe Neighborhoods	16.609		885,603		
Regional Information Sharing Systems	16.610		130,087		
Public Safety Partnership and Community Policing Grants	16.710		2,106,412		
Enforcing Underage Drinking Laws Program	16.727		535,542		
Statewide Automated Victim Information Notification (SAVIN) Program	16.740		416,650		
Forensic DNA Backlog Reduction Program	16.741		3,435,661		
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		2,037,916		
Anti-Gang Initiative	16.744		1,116,891		
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748		52,752		
Edward Byrne Memorial Competitive Grant Program	16.751		4,357		
Congressionally Recommended Awards	16.753		454,299		
Harold Rogers Prescription Drug Monitoring Program	16.754		31,968		
ARRA-State Victim Assistance Formula Grant Program, Recovery Act Funded	16.801			834,648	
ARRA-Edward Byrne Memorial Competitive Grant Program, Recovery Act Funded	16.808			515,878	
ARRA-Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program, Recovery Act Funded	16.810			597,949	
John R. Justice Prosecutors and Defenders Incentive Act	16.816		51,627		
Total Excluding Clusters			196,692,780	7,990,003	
JAG Program Cluster					
Edward Byrne Memorial Justice Assistance Grant Program	16.738		33,074,057		
ARRA-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories, Recovery Act Funded	16.803			59,431,658	
Total JAG Program Cluster			33,074,057	59,431,658	
Total Department of Justice			229,766,837	67,421,661	
Department of Labor					
Labor Force Statistics	17.002		8,363,689		
Compensation and Working Conditions	17.005		831,537		
Unemployment Insurance	17.225		20,410,960,823		See Note 3
ARRA-Unemployment Insurance, Recovery Act Funded	17.225			599,511,599	See Note 3
Senior Community Service Employment Program	17.235		13,324,180		
ARRA-Senior Community Service Employment Program, Recovery Act Funded	17.235			284,366	
Trade Adjustment Assistance	17.245		20,233,809		
Work Incentives Grant	17.266		16,144		
Work Opportunity Tax Credit Program (WOTC)	17.271		1,814,663		
Temporary Labor Certification for Foreign Workers	17.273		1,259,491		
ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors, Recovery Act Funded	17.275			1,907,151	
Occupational Safety and Health-State Program	17.503		31,994,265		
ARRA-Occupational Safety and Health-State Program, Recovery Act Funded	17.503			152,601	
Consultation Agreements	17.504		5,452,246		
Mine Health and Safety Grants	17.600		297,390		
Total Excluding Clusters			20,494,548,237	601,855,717	

Employment Service Cluster				
Employment Service/Wagner-Peyser Funded Activities	17.207		82,936,498	
ARRA-Employment Service/Wagner-Peyser Funded Activities, Recovery Act Funded	17.207			11,686,622
Disabled Veterans' Outreach Program (DVOP)	17.801		13,748,770	
Local Veterans' Employment Representative Program	17.804		7,282,120	
Total Employment Service Cluster			103,967,388	11,686,622
WIA Cluster				
WIA Adult Program	17.258		127,296,441	
ARRA-WIA Adult Program, Recovery Act Funded	17.258			1,512,982
WIA Youth Activities	17.259		132,902,279	
ARRA-WIA Youth Activities, Recovery Act Funded	17.259			5,051,223
WIA Dislocated Workers	17.260		11,683,994	
ARRA-WIA Dislocated Workers, Recovery Act Funded	17.260			1,840,561
Workforce Investment Act (WIA) National Emergency Grants	17.277		10,147,661	
WIA Dislocated Worker Formula Grants	17.278		172,904,879	
Total WIA Cluster			454,935,254	8,404,766
Total Department of Labor			21,053,450,879	621,947,105
Department of Transportation				
Airport Improvement Program	20.106		452,526	
National Motor Carrier Safety	20.218		12,127,138	
Performance and Registration Information Systems Management	20.231		101,184	
Commercial Driver's License Program Improvement Grant	20.232		458,336	
Fuel Tax Evasion-Intergovernmental Enforcement Effort	20.240		129,361	
Local Rail Freight Assistance	20.308		1,199,249	
Capital Assistance to States, Intercity Passenger Rail Services	20.317		2,659,102	
ARRA-High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants, Recovery Act Funded	20.319			42,723,785
Metropolitan Transportation Planning	20.505		75,053,927	
Formula Grants for Other Than Urbanized Areas	20.509		27,643,656	
ARRA-Formula Grants for Other Than Urbanized Areas, Recovery Act Funded	20.509			16,566,590
State Planning and Research	20.515		369,848	
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		23,931,839	
E-911 Grant Program	20.615		251,231	
Pipeline Safety Program Base Grants	20.700		25,081	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		2,139,955	
Total Excluding Clusters			146,542,433	59,290,375
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205		2,443,130,054	
Pass-Through from Metropolitan Transportation Commission		SFBC 10-04	206,500	
ARRA-Highway Planning and Construction, Recovery Act Funded	20.205			963,001,718
Recreational Trails Program	20.219		4,192,539	
Total Highway Planning and Construction Cluster			2,447,529,093	963,001,718
Federal Transit Cluster				
Federal Transit - Capital Investment Grants	20.500		252,827	
Transit Services Programs Cluster				
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		2,085,490	
Highway Safety Cluster				
State and Community Highway Safety	20.600		66,273,798	
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		4,740,291	
Occupant Protection Incentive Grants	20.602		616,380	
Safety Belt Performance Grants	20.609		855,891	
State Traffic Safety Information System Improvement Grants	20.610		1,681,342	
Incentive Grant Program to Increase Motorcyclist Safety	20.612		35,228	
Total Highway Safety Cluster			74,202,930	-
Research & Development Cluster				
Highway Planning and Construction	20.205		12,191,000	
Formula Grants for Other Than Urbanized Areas	20.509		263,795	
Total Research & Development Cluster			12,454,795	-
Total Department of Transportation			2,683,067,568	1,022,292,093

Equal Employment Opportunity Commission					
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002		2,810,325		
General Services Administration					
Donation of Federal Surplus Personal Propery	39.003			*	
Election Reform Payments	39.011		407,743		
National Aeronautics and Space Administration					
Aeronautics	43.002		104,052		
National Endowment for the Arts					
Promotion of the Arts-Partnership Agreements	45.025		1,154,651		
ARRA-Promotion of the Arts-Partnership Agreements, Recovery Act Funded	45.025				204,628
Total National Endowment for the Arts			1,154,651		204,628
Institute of Museum and Library Services					
Grants to States	45.310		18,518,019		
Department of Veterans Affairs					
Grants to States for Construction of State Home Facilities	64.005		7,502,563		
Veterans State Nursing Home Care	64.015		5,425		
Burial Expenses Allowance for Veterans	64.101		99,200		
Veterans Housing - Guaranteed and Insured Loans	64.114			***	
All-Volunteer Force Educational Assistance	64.124		1,322,279		
Total Department of Veterans Affairs			8,929,467		-
Environmental Protection Agency					
Air Pollution Control Program Support	66.001		2,537,775		
State Indoor Radon Grants	66.032		132,059		
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		586,827		
ARRA-National Clean Diesel Emissions Reduction Program, Recovery Act Funded	66.039				3,896,904
ARRA-State Clean Diesel Grant Program	66.040				352,941
State Environmental Justice Cooperative Agreement Program	66.312		62,664		
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		11,744,738		
Pass-Through from San Jose State University Foundation		R0975005	1,006,692		
State Public Water System Supervision	66.432		7,828,247		
State Underground Water Source Protection	66.433		426,640		
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436				
Pass-Through from Association of Bay Area Governments		SFBC 09-02	36,343		
Water Quality Management Planning	66.454		505,711		
ARRA-Water Quality Management Planning, Recovery Act Funded	66.454				2,067,015
Capitalization Grants for Clean Water State Revolving Funds	66.458		42,528,779		
ARRA-Capitalization Grants for Clean Water State Revolving Funds, Recovery Act Funded	66.458				139,835,977
Nonpoint Source Implementation Grants	66.460		10,018,142		
Regional Wetland Program Development Grants	66.461		74,404		
Capitalization Grants for Drinking Water State Revolving Funds	66.468		82,343,037		
ARRA-Capitalization Grants for Drinking Water State Revolving Funds, Recovery Act Funded	66.468				64,464,646
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		3,120,103		
Beach Monitoring and Notification Program Implementation Grants	66.472		441,988		
Water Protection Grants to the States	66.474		200,214		
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		387,717		

Consolidated Pesticide Enforcement Cooperative Agreements	66.700	1,150,557	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	688,608	
Pollution Prevention Grants Program	66.708	9,184	
Hazardous Waste Management State Program Support	66.801	7,878,670	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	1,043,893	
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	344,563	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	2,638,259	
ARRA-Leaking Underground Storage Tank Trust Fund Corrective Action Program, Recovery Act Funded	66.805		10,936,430
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	105,311	
State and Tribal Response Program Grants	66.817	(1,565)	
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	849,440	
ARRA-Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Act Funded	66.818		5,494
Total Excluding Cluster		178,689,000	221,559,407
Research & Development Cluster			
Pollution Prevention Grants Program	66.708	67,027	
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716	127,161	
Total Research & Development Cluster		194,188	-
Total Environmental Protection Agency		178,883,188	221,559,407
Department of Energy			
State Energy Program	81.041	1,681,532	
ARRA-State Energy Program, Recovery Act Funded	81.041		66,714,256
Weatherization Assistance for Low-Income Persons	81.042	10,836,813	
ARRA-Weatherization Assistance for Low-Income Persons, Recovery Act Funded	81.042		77,305,312
Office of Science Financial Assistance Program	81.049	(1,204)	
ARRA-Conservation Research and Development, Recovery Act Funded	81.086		2,005,972
Renewable Energy Research and Development	81.087	419,398	
Office of Environmental Waste Processing	81.104	167,624	
State Energy Program Special Projects	81.119	533,098	
ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis, Recovery Act Funded	81.122		296,686
ARRA-Energy Efficient Appliance Rebate Program (EEARP), Recovery Act Funded	81.127		750,844
ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Act Funded	81.128		5,204,177
Long Term Surveillance and Maintenance	81.136	10,309	
Total Excluding Cluster		13,647,570	152,277,247
Research & Development Cluster			
Fossil Energy Research and Development	81.089	1,889,754	-
Total Department of Energy		15,537,324	152,277,247
Department of Education			
Adult Education - Basic Grants to State	84.002	90,800,896	
Migrant Education_State Grant Program	84.011	144,430,960	
Title I Program for Neglected and Delinquent Children and Youth	84.013	1,783,995	
International Research and Studies	84.017	363,951	
Career and Technical Education -- Basic Grants to States	84.048	126,652,409	
Leveraging Educational Assistance Partnership	84.069	11,197,021	
Fund for the Improvement of Postsecondary Education	84.116	6,189	
Migrant Education - Coordination Program	84.144	150,118	
Rehabilitation Services-Client Assistance Program	84.161	50,060	
Safe and Drug-Free Schools and Communities-National Programs	84.184	349,283	
Byrd Honors Scholarships	84.185	4,902,222	
Safe and Drug-Free Schools and Communities-State Grants	84.186	5,109,669	
Supported Employment Services for Individuals with Significant Disabilities	84.187	5,388,347	
Even Start-State Educational Agencies	84.213	6,582,745	
Assistive Technology	84.224	858,393	
Tech-Prep Education	84.243	10,910,090	

Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	194,862	
Charter Schools	84.282	45,170,411	
Twenty-First Century Community Learning Centers	84.287	172,379,397	
Special Education-State Personnel Development	84.323	2,546,163	
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	4,377,974	
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	2,440,965	
Reading First State Grants	84.357	9,678,026	
Rural Education	84.358	1,247,945	
English Language Acquisition Grants	84.365	173,115,276	
Mathematics and Science Partnerships	84.366	26,665,816	
Improving Teacher Quality State Grants	84.367	320,454,396	
Grants for State Assessments and Related Activities	84.369	35,899,215	
Striving Readers	84.371	216,191	
College Access Challenge Grant Program	84.378	15,484,106	
Education Jobs Fund	84.410	1,075,228,907	
Total Excluding Cluster		2,294,635,998	-
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	1,693,860,107	
ARRA-Title I Grants to Local Educational Agencies, Recovery Act Funded	84.389		8,817,635
Total Title I, Part A Cluster		1,693,860,107	8,817,635
Special Education Cluster (IDEA)			
Special Education_Grants to States	84.027	1,199,596,203	
Special Education--Preschool Grants	84.173	37,687,867	
ARRA-Special Education Grants to States, Recovery Act Funded	84.391		270,937,432
ARRA-Special Education-Preschool Grants, Recovery Act Funded	84.392		15,253,284
Total Special Education Cluster (IDEA)		1,237,284,070	286,190,716
Vocational Rehabilitation Cluster			
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	167,811,876	
ARRA-Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act Funded	84.390		24,124,496
Total Vocational Rehabilitation Cluster		167,811,876	24,124,496
Early Intervention Services (IDEA) Cluster			
Special Education-Grants for Infants and Families	84.181	46,926,928	
ARRA-Special Education - Grants for Infants and Families, Recovery Act	84.393		(654)
Total Early Intervention Services (IDEA) Cluster		46,926,928	(654)
Educational Technology State Grants Cluster			
Education Technology State Grants	84.318	10,010,923	
ARRA-Education Technology State Grants, Recovery Act Funded	84.386		33,525,847
Total Educational Technology State Grants Cluster		10,010,923	33,525,847
School Improvement Grants Cluster			
School Improvement Grants	84.377	31,939,722	
ARRA-School Improvement Grants, Recovery Act Funded	84.388		97,304,668
Total School Improvement Grants Cluster		31,939,722	97,304,668
State Fiscal Stabilization Fund Cluster			
ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act Funded (Education Stabilization Fund)	84.394		763,946,004
Independent Living State Grants Cluster			
Independent Living-State Grants	84.169	(412,926)	
ARRA-Independent Living State Grants, Recovery Act Funded	84.398		(449,112)
Total Independent Living State Grants Cluster		(412,926)	(449,112)
Independent Living Services for Older Individuals Who Are Blind Cluster			
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	1,498,888	
ARRA-Independent Living Services for Older Individuals Who are Blind, Recovery Act Funded	84.399		(1,068,908)
Total Independent Living Services for Older Individuals Who		1,498,888	(1,068,908)
Education of Homeless Children and Youth Cluster			
Education for Homeless Children and Youth	84.196	8,013,773	
ARRA-Education for Homeless Children and Youth, Recovery Act Funded	84.387		6,424,524
Total Education of Homeless Children and Youth Cluster		8,013,773	6,424,524

Statewide Data Systems Cluster					
Statewide Data Systems	84.372		14,711		-
Total Department of Education			5,491,584,070		1,218,815,216
U.S. Election Assistance Commission					
Help America Vote Act Requirements Payments	90.401		4,757,625		
Department of Health and Human Services					
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006		203,136		
Strengthening Public Health Services at the Outreach Offices of the U.S.- Mexico Border Health Commission	93.018		236,702		
Special Programs for the Aging - Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		542,762		
Special Programs for the Aging - Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	93.042		1,670,818		
Special Programs for the Aging - Title III, Part D-Disease Prevention and Health Promotion Services	93.043		2,041,189		
Special Programs for the Aging - Title IV-and Title II-Discretionary Projects	93.048		845,238		
National Family Caregiver Support, Title III, Part E	93.052		16,644,665		
Public Health Emergency Preparedness	93.069		12,665,729	*	
Medicare Enrollment Assistance Program	93.071		405,169		
Emergency System for Advance Registration of Volunteer Health Professionals	93.089		56,476		
Maternal and Child Health Federal Consolidated Programs	93.110		1,109,294		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		8,365,757	*	
Emergency Medical Services for Children	93.127		73,859		
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		236,756		
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135		454,940		
Injury Prevention and Control Research and State and Community Based Programs	93.136		5,108,149		
Projects for Assistance in Transition from Homelessness (PATH)	93.150		6,785,226		
Health Program for Toxic Substances and Disease Registry	93.161		522,633		
Grants to States for Loan Repayment Program	93.165		773,999		
Disabilities Prevention	93.184		230,901		
Consolidated Knowledge Development and Application (KD&A) Program	93.230		(358,217)		
Traumatic Brain Injury State Demonstration Grant Program	93.234		13,896		
Grants to States to Support Oral Health Workforce Activities	93.236		46,498		
State Rural Hospital Flexibility Program	93.241		367,715		
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		372,581		
Universal Newborn Hearing Screening	93.251		279,277		
Substance Abuse and Mental Health Services - Access to Recovery	93.275		5,889,699		
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		68,175,248		
Pass-Through from Association of State and Territorial Health Officials (ASTHO)		5U38HM000454-02	22,856		
Small Rural Hospital Improvement Grant Program	93.301		448,702		
ARRA-State Loan Repayment Program, Recovery Act Funded	93.402				403,050
ARRA-State Primary Care Offices, Recovery Act Funded	93.414				109,429
Food Safety and Security Monitoring Project	93.448		480,320		
ARRA-Pregnancy Assistance Fund Program, Recovery Act Funded	93.500				118,658
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		1,434,621		
Strengthening Public Health Infrastructure for Improved Health Outcomes	93.507		183,253		
Affordable Care Act (ACA) State Health Care Workforce Development Grants	93.509		133,969		
Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)	93.512		97,634		
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518		24,634		
The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities	93.523		223,502		

State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525		25,000		
Pre-existing Condition Insurance Program (PCIP)	93.529		6,082,720		
Promoting Safe and Stable Families	93.556		35,993,885		
Child Support Enforcement	93.563		629,263,036		
ARRA-Child Support Enforcement, Recovery Act Funded	93.563				18,533,865
Child Support Enforcement Research	93.564		3,225		
Refugee and Entrant Assistance - State Administered Programs	93.566		36,466,912		
Low-Income Home Energy Assistance	93.568		188,348,065		
Refugee and Entrant Assistance - Discretionary Grants	93.576		1,769,153		
U.S. Repatriation	93.579		51,264		
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584		4,253,583		
State Court Improvement Program	93.586		3,130,762		
Community-Based Child Abuse Prevention Grants	93.590		3,095,138		
Grants to States for Access and Visitation Programs	93.597		196,299		
Chafee Education and Training Vouchers Program (ETV)	93.599		5,632,205		
Adoption Incentive Payments	93.603		62,670		
Voting Access for Individuals with Disabilities - Grants to States	93.617		1,486,295		
Developmental Disabilities Basic Support and Advocacy Grants	93.630		10,784,162		
Children's Justice Grants to States	93.643		1,872,783		
Stephanie Tubbs Jones Child Welfare Services Program	93.645		34,473,623		
Child Welfare Research Training or Demonstration	93.648		315,632		
Foster Care - Title IV-E	93.658		1,134,720,043		
ARRA-Foster Care - Title IV-E, Recovery Act Funded	93.658				39,972,409
Adoption Assistance	93.659		415,469,414		
ARRA-Adoption Assistance, Recovery Act Funded	93.659				33,595,945
Social Services Block Grant	93.667		551,323,500		
Child Abuse and Neglect State Grants	93.669		4,136,252		
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		8,539,527		
Chafee Foster Care Independence Program	93.674		20,421,277		
ARRA-State Grants to Promote Health Information Technology, Recovery Act Funded	93.719				1,456,167
ARRA-Prevention and Wellness-State, Territories and Pacific Islands, Recovery Act Funded	93.723				1,980,345
ARRA-Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724				3,732
ARRA-Communities Putting Prevention to Work: Chronic Disease Self-Management Program, Recovery Act Funded	93.725				612,228
Children's Health Insurance Program	93.767		1,284,857,563		
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		5,179,453		
Money Follows the Person Rebalancing Demonstration	93.791		4,046,764		
Specially Selected Health Projects	93.888		470,527		
National Bioterrorism Hospital Preparedness Program	93.889		39,522,552		
Grants to States for Operation of Offices of Rural Health	93.913		153,902		
HIV Care Formula Grants	93.917		145,915,347		
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		767,557		
HIV Prevention Activities - Health Department Based	93.940		15,511,840		
HIV Demonstration, Research, Public and Professional Education Projects	93.941		377,842		
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		16,791		
Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		2,667,862		
Tuberculosis Demonstration, Research, Public and Professional Education	93.947		11,382		
Block Grants for Community Mental Health Services	93.958		46,010,088		
Block Grants for Prevention and Treatment of Substance Abuse	93.959		303,602,234		
National All Schedules Prescription Electronic Reporting Grant	93.975		327,590		
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		5,003,127	*	
Preventive Health Services - Sexually Transmitted Diseases Research, Demonstrations and Public Education Grants	93.978		658,045		
Mental Health Disaster Assistance and Emergency Mental Health	93.982		25		
Preventive Health and Health Services Block Grant	93.991		6,269,821		
Maternal and Child Health Services Block Grant to the States	93.994		51,087,460		
Other-Department of Health and Human Services	93.999		22,810,712		
Pass-Through from National Association of Chronic Disease Directors		1045000368110	221,063		
ARRA-Other-Department of Health and Human Services, Recovery Act Funded	93.999				124,503
Total Excluding Clusters			5,170,215,560		96,910,331

Aging Cluster				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	39,993,537		
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	68,329,736		
Nutrition Services Incentive Program	93.053	12,962,627		
ARRA-Aging Home-Delivered Nutrition Services for States, Recovery Act Funded	93.705		444,615	
ARRA-Aging Congregate Nutrition Services for States, Recovery Act Funded	93.707		1,210,740	
Total Aging Cluster		121,285,900	1,655,355	
Immunization Cluster				
Immunization Grants	93.268	26,608,054	*	
ARRA-Immunization, Recovery Act Funded	93.712		6,619,050	*
Total Immunization Cluster		26,608,054	6,619,050	
TANF Cluster				
Temporary Assistance for Needy Families	93.558	3,390,046,831		
ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs, Recovery Act Funded	93.714		613,268,598	
Total TANF Cluster		3,390,046,831	613,268,598	
CSBG Cluster				
Community Services Block Grant	93.569	64,661,782		
ARRA-Community Services Block Grant, Recovery Act Funded	93.710		52,540,914	
Total CSBG Cluster		64,661,782	52,540,914	
CCDF Cluster				
Child Care and Development Block Grant	93.575	292,210,540		
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	290,583,473		
ARRA-Child Care and Development Block Grant, Recovery Act Funded	93.713		110,109,406	
Total CCDF Cluster		582,794,013	110,109,406	
Head Start Cluster				
Head Start	93.600	220,503		
ARRA-Head Start, Recovery Act Funded	93.708		250,666	
Total Head Start Cluster		220,503	250,666	
Medicaid Cluster				
ARRA-Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative, Recovery Act Funded	93.720		719,625	
State Medicaid Fraud Control Units	93.775	21,026,194		
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	37,682,152		
Medical Assistance Program	93.778	29,356,782,672		
ARRA-Medical Assistance Program, Recovery Act Funded	93.778		5,032,334,326	
Total Medicaid Cluster		29,415,491,018	5,033,053,951	
Research & Development Cluster				
Food and Drug Administration-Research	93.103	443,798		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	160,332		
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	15,000		
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	471,782		
Affordable Care Act (ACA) – Consumer Assistance Program Grants	93.519	38,689		
Total Research & Development Cluster		1,129,600	-	
Total Department of Health and Human Services		38,772,453,261	5,914,408,272	
Corporation for National and Community Service				
State Commissions	94.003	1,357,647		
Learn and Serve America - School and Community Based Programs	94.004	2,485,538		
AmeriCorps	94.006	24,525,106		
ARRA-AmeriCorps, Recovery Act Funded	94.006		5,858	
Volunteers in Service to America	94.013		*	
Volunteer Generation Fund	94.021	26,421		
Total Excluding Clusters		28,394,712	5,858	

Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011		1,333,473	
Total Corporation for National and Community Service			29,728,185	5,858
Executive Office of the President				
High Intensity Drug Trafficking Areas Program	95.001			
Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia		G09LA0006A	105,282	
Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia		G10LA0006A	304,887	
Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County		I8PSCP504Z	108	
Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County		G09CV0002A	57,710	
Pass-Through from INCH/LA Police Chief's Association/Riverside County		G09LA0007A	64,687	
Pass-Through from NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD		G09NV0001A	9,839	
Pass-Through from NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD		G10NV0001A	48,481	
Pass-Through from CA Border Alliance Group/City of San Diego/San Diego Police Dept (SDNIN)		G09SC0001A	2,033	
Pass-Through from CA Border Alliance Group/City of San Diego/San Diego Police Dept (SDNIN)		G10SC0001A	551,665	
Total Executive Office of the President			1,144,692	-
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security_Disability Insurance	96.001		215,985,809	
Total Social Security Administration			215,985,809	-
Department of Homeland Security				
Non-Profit Security Program	97.008		850,171	
Boating Safety Financial Assistance	97.012		6,884,126	
Community Assistance Program-State Support Services Element (CAP-SSSE)	97.023		395,248	
Flood Mitigation Assistance	97.029		649,814	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		348,319,231	
Hazard Mitigation Grant	97.039		13,186,229	
National Dam Safety Program	97.041		159,272	
Emergency Management Performance Grants	97.042		23,230,777	
Assistance to Firefighters Grant	97.044		(457,811)	
Cooperating Technical Partners	97.045		151,809	
Fire Management Assistance Grant	97.046		92,208,595	
Pre-Disaster Mitigation	97.047		6,304,383	
Emergency Operations Centers	97.052		(5,331)	
Interoperable Emergency Communications	97.055		6,534,453	
Map Modernization Management Support	97.070		157,084	
Rail and Transit Security Grant Program	97.075		17,600,491	
Buffer Zone Protection Program (BZPP)	97.078		4,685,449	
Earthquake Consortium	97.082		520,293	
Severe Loss Repetitive Program	97.110		223,038	
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111		3,024,090	
Radiological/Nuclear Detection Pilot Evaluations Program	97.121		255,313	
Gulf of Mexico US Coast Guard PRFA	97.999		34,248	
Total Excluding Cluster			524,910,972	-
Homeland Security Cluster				
Homeland Security Grant Program	97.067		230,827,709	
Pass-Through from Sacramento County Sherriff's Department		08.I8PCVP502Z	13,923	
Pass-Through from San Diego County Sherriff's Department		2010-1085	1,131,192	
Pass-Through from San Diego County Sherriff's Department		R0995008	62,200	
Pass-Through from Imperial County		CAPELC 08-001	549,387	
Total Homeland Security Cluster			232,584,411	-
Total Department of Homeland Security			757,495,383	-

Miscellaneous Grants and Contracts

Shared Revenue-Flood Control Lands	99.002		262,188		
Shared Revenue-Grazing Land	99.004		65,233		
U.S. Department of the Interior-Fire Prevention/Suppression Agreement	99.014		134,000		
U.S. Department of Agriculture and Various Other U.S. Department-Fire Prevention/Suppression	99.016		4,857,750		
Miscellaneous Expenditures of Federal Awards	99.099		(12,877)		
Miscellaneous Expenditures of Federal Awards	99.999		94,215,890	**	
ARRA-Miscellaneous Expenditures of Federal Awards					13,330
Pass-Through from Miscellaneous Entities		Unknown	1,358,970		
Total Miscellaneous Grants and Contracts			100,881,154		13,330
Total Expenditures of Federal Awards			**$ 74,093,821,975**		**$ 9,498,308,973**

Note: OMB Circular A-133 requires that the State include, in either its Schedule of Expenditures of Federal Awards (schedule) or related notes, the value of federal awards expended in the form of non-cash assistance–such as commodities and vaccines received–the amount of insurance in effect during the year, and loan and loan guarantees outstanding at year end. Although the schedule does not include these amounts, the State did receive this assistance for certain federal programs–as noted with the symbols shown below–and further described in Notes 5 and 6.

* This program has non-cash federal assistance, which may include a variety of items, such as commodites, food stamps, vaccines, or federal excess property. For the value of this assistance, see Note 5.

** This program has loans and/or loan guarantees outstanding as of June 30, 2011. See Note 6.

*** This program has insurance in force as of June 30, 2011. See Note 6.

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STATE OF CALIFORNIA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2011

1. GENERAL

The accompanying State of California Schedule of Expenditures of Federal Awards presents the expenditures for all federal award programs for the fiscal year ended June 30, 2011. Except for $213 million passed through to the University of California and the California State University systems from the State Fiscal Stabilization Fund—Education State Grants, Recovery Act (federal catalog number 84.394), this schedule generally does not include federal awards expended by these systems, and the California Housing Finance Agency, a component unit of the State. These entities engaged other auditors to perform an audit in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

2. BASIS OF ACCOUNTING

The federal award expenditures reported in the schedule are prepared from records maintained by each state department for federal funds. Except for the Medical Assistance Program (federal catalog number 93.778), the expenditures included on the schedule are reported on the cash basis of accounting with certain accruals. The State of California accounts for the Medical Assistance Program's expenditures on a cash basis. The departments' records are periodically reconciled to State Controller's records for federal receipts and department expenditures processed. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. UNEMPLOYMENT INSURANCE

The Employment Development Department (EDD) administers the Unemployment Insurance program (federal catalog number 17.225). EDD was not able to differentiate all federal funds received and expended under the American Recovery and Reinvestment Act of 2009 (Recovery Act) for this program. Thus, the Recovery Act amount of $599,511,599 shown on the Schedule of Expenditures of Federal Awards is an estimate of what EDD believes it expended from the Recovery Act for Emergency Unemployment Compensation, Federal Additional Compensation, Federal-State Extended Benefits, and administrative costs.

Additionally, the State funded $3,754,686,505 of the $20,410,960,823 shown on the schedule as non-Recovery Act expenditures with a loan from the federal Unemployment Trust Fund (UTF). The State owed the federal UTF a total of $10,957,982,217 as of June 30, 2011, which includes $7,203,295,712 of loans received in fiscal year 2009-10 and fiscal year 2008-09.

4. RECOVERY ACT FUNDING OF SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM BENEFITS

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the Recovery Act. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.38 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

5. NON-CASH FEDERAL AWARDS

The State is the recipient of federal award programs that do not result in cash receipts or disbursements. These non-cash federal awards include a variety of items, such as commodities, SNAP benefits (i.e. food stamps), vaccines, or federal excess property. Non-cash awards distributed for fiscal year ending June 30, 2011 are as follows:

CFDA Number	Program Name	Non-Cash Awards for fiscal year 2010-11
10.551	Supplemental Nutrition Assistance Program	$6,284,729,871
10.555	National School Lunch Program	142,384,462
10.565	Commodity Supplemental Food Program	13,463,308
10.569	Emergency Food Assistance Program (Food Commodities)	77,978,927
10.569	ARRA - Emergency Food Assistance Program (Food Commodities), Recovery Act Funded	15,532
10.672	Rural Development, Forestry, and Communities	265,650
39.003	Donation of Federal Surplus Personal Property	40,033,759
93.069	Public Health Emergency Preparedness	184,535
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	311,125
93.268	Immunization Grants	465,869,765
93.712	ARRA - Immunization Grants, Recovery Act Funded	4,056,633

93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	414,376
94.013	Volunteers in Service to America	499,242
	Total	$7,030,207,185

6. LOANS, LOAN GUARANTEES OUTSTANDING, AND INSURANCE IN EFFECT

Loans, loan guarantees outstanding, and insurance in effect at June 30, 2011, are summarized below:

CFDA Number	Program Name	Loans/Loan Guarantees Outstanding at June 30, 2011	Insurance In Effect at June 30,2011
14.228	Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	$7,727,287	
14.235	Supportive Housing Program	1,302,405	
14.239	Home Investment Partnerships Program	110,727,946*	
64.114	Veterans Housing - Guaranteed and Insured Loans		100,193,371
99.999	State Small Business Credit Initiative	3,971,401**	
	Total	$123,729,039	$100,193,371

* As indicated in the finding on page 59, reference number 2011-12-4, the amount reported here may not be accurate.
** The amount includes $3,626,800 from the Business, Transportation and Housing Agency and $344,601 from the California Pollution Control Financing Authority.

7. PASS-THROUGH

Federal awards received by the State from a pass-through entity are included in the Schedule of Expenditures of Federal Awards and italicized.

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Summary Schedule of Prior Audit Findings

Prepared by Department of Finance

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number:	**2010-12-8**
Federal Program:	All programs
State Administering Department:	Department of Finance (Finance)
Fiscal Year Initially Reported:	1995-96
Audit Finding:	Reporting. Because of limitations in its automated accounting systems, the State has not complied with the provisions of U.S. Office of Management and Budget Circular A-133 requiring auditees to prepare a Schedule of Expenditures of Federal Awards that includes the total federal awards expended for each individual federal program.
Status of Corrective Action:	Fully corrected. Finance has implemented a solution that brings California into compliance with the requirement of reporting federal expenditures beginning with fiscal year 2010-11. As previously reported, this solution will be utilized until the long term automated solution is operational. **Solution Implemented** In a cooperative effort with State agencies, a solution was implemented as of fiscal year 2010-2011. Finance directed departments via an August 2010 Budget Letter to manually track and report expenditures separately for each federal program. The federal expenditures will be reported on a year-end financial report that has been modified for that purpose – Report of Expenditures of Federal Funds (Report No. 13). Furthermore, the State Administrative Manual (SAM) Section 7974 was revised in March 2011 to provide further instructions on how to prepare the Report No. 13. Each department will submit a Report No. 13 to Finance by August 20, 2011 and these reports will be consolidated to create the Schedule of Expenditures of Federal Awards. As of June 30, 2011, Finance auditors consulted and trained all departments who received federal awards in fiscal year 2009-10 to ensure the success of this interim solution. Also, Finance auditors will consult with departments who received

federal awards for the first time in 2010-11 to ensure they are aware of the new reporting requirements.

Long Term Plan
The State has received legislative approval for a new automated/integrated statewide financial management system-- the Financial Information System for California (FI$Cal Project). The FI$Cal Project is a comprehensive Statewide initiative costing over $1 billion and is anticipated to be completed by fiscal year 2017-2018. Wave 1 implementation is planned for 2012-13. The FI$Cal Project's requirements related to federal funding include the capability to record grants by Catalog of Federal Domestic Assistance (CFDA) number, and to track and record transactions for individual grants at all levels of the account classification structure by time period and by CFDA number. Finance is confident the new system, upon full implementation to all State departments (planned for 2017-2018) will provide an automated solution to capture total expenditures for each federal program as required by OMB Circular A-133.

Reference Number:	**2010-7-11**
Federal Program:	94.006
State Administering Department:	CaliforniaVolunteers
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Matching. CaliforniaVolunteers has not ensured its established policies and procedures for fiscal desk reviews are followed. Specifically, CaliforniaVolunteers, did not verify the allowability of grantee match contributions for the fiscal desk reviews tested where requirements to verify match contributions existed. In addition, CaliforniaVolunteers has yet to eliminate its backlog of fiscal desk reviews.
Status of Corrective Action:	Partially corrected. Staff are now in place and have been trained to conduct fiscal desk reviews. Since the audit findings, closing letters for the 2007-08 fiscal desk review process have been sent to 8 sub-grantees and CaliforniaVolunteers continues to work on the backlog. CaliforniaVolunteers has been plagued by staffing changes, complicated by the change in Administration in January 2011. It is expected that the backlog of fiscal desk reviews (those from 2007-08 and 2008-09) will be complete by December 31, 2011. In addition, beginning

	with the 2009-10 grant year, the letters to sub-grantees requesting information for the fiscal desk reviews will specify that documents verifying source of match must be included. It is anticipated that these letters will be sent by September 30, 2011.[1]
Reference Number:	**2010-13-8**
Federal Program:	94.006
State Administering Department:	CaliforniaVolunteers
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. CaliforniaVolunteers did not implement its updated site-visit policy and procedures. Specifically, CaliforniaVolunteers is still in the process of reviewing and evaluating its interim policy and procedures related to the review and documentation of fiscal information on site visits.
Status of Corrective Action:	Fully corrected. Site visits are regularly completed by program staff.
Reference Number:	**2010-1-2**
Federal Program:	12.401
State Administering Department:	Military Department (Military)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs. Military lacks internal controls that would allow it to prevent and/or detect instances when personnel costs are being inappropriately charged to this federal program. Specifically, the Military lacked a process to identify when personnel may no longer be working on allowable activities. Furthermore, Military did not have adequate documentation to support personnel costs charged to the federal fiscal years' 2009 and 2010 awards.
Status of Corrective Action:	Partially corrected. Certifications have been completed, during fiscal year 2010-11, for employees who work under a single federal appendix of the master cooperative agreement (MCR). A tracking system has been developed for employees who work under multiple federal appendix of the MCR. This process is expected to be

approved by the Federal Awarding Agency Director and implemented by July 1, 2011 for fiscal year 2010-11.[2]

Reference Number:	**2010-5-2**
Federal Program:	84.126 84.390
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Eligibility. Rehabilitation did not always determine applicant eligibility for services within the required period and did not properly document extensions to eligibility periods for six of the 40 applicant cases reviewed. Rehabilitation has processes in place to monitor the timeliness of its eligibility decisions; however, these tools and instructions were not effective in identifying and correcting these six exceptions.
Status of Corrective Action:	Partially corrected. Rehabilitation's current Field Computer System (FCS) lacks the functionality necessary to effectively track and monitor extensions of an applicant's eligibility determination. Rehabilitation implemented a short term solution in September 2010 for local level monitoring of eligibility determinations. Rehabilitation counselors and supervisors receive automated reminder notices on the FCS before the expiration of the 60 days allowed for eligibility determination. Rehabilitation will continue to remind counselors and managers of the most effective tracking tools available and emphasize the importance of manually tracking eligibility timelines and extensions using available reports. To ensure appropriateness and compliance with federal regulations, Rehabilitation supervisors continue to conduct reviews of eligibility determinations and extensions. Long term solution is the implementation of an electronic records system. Rehabilitation has committed considerable resources to replace the FCS with a new electronic records system, Accessible Web-based Activity Reporting Environment (AWARE), now in pilot implementation. Rehabilitation expects that eligibility extensions will be more effectively tracked and monitored by staff through the AWARE system. The system is expected to be fully implemented Statewide by October

	2011. Rehabilitation has completed the Meet and Confer process with the American Federation of State, County and Municipal Employees union regarding the change in Information Technology systems. Rehabilitation continues to identify strategies to streamline procedures that will ensure the timeliness of eligibility decisions and extensions. Examples include streamlining of processes, forms, and signature requirements, and combining eligibility and priority for services. Issue Memo 2011.03 for this purpose was approved in January 2011. The AWARE system has been adapted to daily display a list of consumers with activities due and their respective required completion dates, including eligibility decisions and extensions. The AWARE system is configured to automatically update an approved eligibility extension expiration date upon staff entry within the Record of Services (ROS). The AWARE system also contains ad hoc reporting features that allow easily attainable reports produced by each user, facilitating increased monitoring at the local level.[3]
Reference Number:	**2010-7-1**
Federal Program:	84.126
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Matching, Reporting. Rehabilitation lacks adequate internal controls to ensure compliance with the matching requirement. In response to our prior year finding, Rehabilitation implemented a new process for reviewing spreadsheets that staff prepared to track certified expenditure information submitted by its vendors. Although Rehabilitation's new process requires the accounting officer-specialist's supervisor to review these spreadsheets each month, Rehabilitation did not always ensure that the spreadsheet contained accurate amounts. The summary spreadsheet created to support the amounts in Rehabilitations' final financial status report for the 2008 grant included errors that over reported the nonfederal match share by $111,189.
Status of Corrective Action:	Fully corrected. The Certified Expenditure Report procedures were revised after the most recent Bureau of State Audits audit and then finalized. Additional controls include: (1) preparation and retention of calculator tapes for verification, (2) procedures for identifying whether a report has been received, (3) process for recording

	quarterly reporting, (4) verification of final submission for each provider, (5) review of file by member of second unit, (6) identification of areas to be included in the supervisor review, and (7) periodic reconciliation of the Certified Expenditure report with the match tracking reports maintained by the Rehabilitation Collaborative Services Unit.
Reference Number:	**2010-1-3**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Mental Health has not yet developed a process to verify whether the subgrantees' actual expenditures of federal grant funds are for allowable activities and costs.
Status of Corrective Action:	Partially corrected. Mental Health established a workgroup in March 2010 to determine the feasibility of having its Program Compliance Division conduct audits of the counties in accordance with Mental Health's risk analysis procedures and federal requirements. Mental Health had anticipated that this finding would be fully addressed by September 2010. However, due to extensive discussions and issues raised, Mental Health revised its implementation date to December 2010. In March 2011, the workgroup prepared and distributed a draft recommendation to Mental Health's management. The recommendation included three possible solutions to meet the allowability of costs requirement for fiscal year 2011-12. This new process will ensure that only allowable activities and costs are paid for with the block grant funds. If Mental Health is still responsible for administering the grant for fiscal year 2012-13, then the workgroup recommends that Mental Health consider expanding the process developed in the prior fiscal year. The expansion of the process would further ensure that only allowable activities and costs are paid for with block grant funds.[4]
Reference Number:	**2010-3-6**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support

Services)

Fiscal Year Initially Reported:	2005-06
Audit Finding:	Cash Management, Special Tests and Provisions. Child Support Services did not always adhere to cash management requirements for drawing federal funds for the Child Support Enforcement program. The Child Support Services sometimes exceeded the Treasury-State Agreement three-day limit in disbursing payments for local assistance. In addition, Child Support Services did not properly report all the $113.1 million Recovery Act funds received in fiscal year 2009-10 to the State Controller's Office. Also, Child Support Services did not correctly report all Recovery Act draws that took place after the creation of the new account code totaling $13.5 million.
Status of Corrective Action:	Fully corrected. Child Support Services has taken steps to ensure that staff is included in State control agency distribution lists for policy and procedure notifications. Child Support Services has also verified that Recovery Act funds for fiscal year 2010-11 have been correctly recorded in the State's accounting records.

Reference Number:	**2010-5-1**
Federal Program:	93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Eligibility. Social Services continues to need to improve its controls over its eligibility determinations. We found that adoption case files reviewed at two district offices did not contain completed documents that demonstrate compliance with federal regulations. At one district office, nine out of 10 case files we reviewed contained a copy of the agreement but the agreement was not signed or dated by the adoptive parents. Further, one agreement was signed after the final adoptive decree and did not include the amount of nonrecurring expenses to be paid.
Status of Corrective Action:	Fully corrected. Social Services establishes Adoption Assistance Program (AAP) requirements under statute, regulations, and all county letters to counties and adoption district offices. Counties are audited under the single audit standards that include review of the AAP Claims for AAP administrative and assistance costs are "desk

audited" by Social Services and certified correct and accurate by county welfare directors. The State has a Federally-approved AAP Program Improvement Plan (PIP) which guides Federal compliance. Pending completion of the PIP, an All County Letter was released September 29, 2009, that provided interim direction in the following areas: AAP Eligibility; AAP Agreements and Payment Amounts; AAP Reassessments and Nonrecurring Adoption Expenses. All proposed statute language was achieved via Assembly Bill (AB) X4 4 effective July 28, 2009, and Senate Bill (SB) 597 signed October 11, 2009, effective January 1, 2010. The outstanding items to be completed per the PIP are revisions of the regulations and the forms specific to AAP. In addition, Social Services submitted a Budget Change Proposal (BCP) requesting two fulltime Social Service Consultant III to provide more comprehensive oversight and monitoring of the counties and adoption district offices policies and procedures. The BCP was denied by the Legislature. Training was provided at the January and March 2010 District Office Managers meetings. A peer review between the seven District Offices was conducted at the District Office Managers meeting November 2010. The monitoring reviews did include an analysis of all supporting AAP documentation to ensure district office eligibility determinations and related payments are correct and in compliance with federal laws and regulations. The seven district offices are responsible for the administration of AAP for twenty-eight counties.

Reference Number:	**2010-7-2**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Earmarking. Mental Health did not have official written policy or procedures in place to ensure administrative costs were charged appropriately to the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services.
Status of Corrective Action:	Partially corrected. Mental Health established a workgroup in February 2010 to establish a written policy, as well as processes and procedures, to ensure that only allowable costs are used to meet the earmarking requirement. Mental Health had anticipated that this finding would be fully addressed by September 2010.

However, due to extensive discussions and issues raised, Mental Health revised its implementation date to December 2010.

In January 2011, the workgroup prepared and distributed a draft policy and procedures to Mental Health's management. The draft policy and procedures are in the process of being revised and will be redistributed to Mental Health's management for review and approval. Prior to full implementation of the policy and procedures, the revision of processes, forms, and reports may be required. In addition, a draft desk manual for the grants management program has been developed.[5]

Reference Number:	**2010-7-3**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Level of Effort – Maintenance of Effort. Mental Health still needs to make further refinements to its process for complying with the maintenance of effort (MOE) requirements. Specifically, Mental Health did not provide documentation to support the percentages it applied against the total of managed care and realignment dollars to arrive at the amount it reported as expenditures for children with serious emotional disturbance (SED). Additionally, Mental Health was unable to provide documentation that showed the components and expenditures used to generate the fiscal year 1994-95 threshold of $160 million. For the MOE requirement related to the State's expenditures for community mental health services, we found that Mental Health did not include any expenditures from the Mental Health Services Act, and it could not positively state whether other State agencies fund community mental health programs for adults with serious mental illness (SMI) or children with SED.
Status of Corrective Action:	Partially corrected. Mental Health established a workgroup in February 2010 to research the percentages used to support the managed care and realignment dollars used in its calculation of MOE for children with SED, and examine for revision its methodology for the MOE calculation for community mental health services. Mental Health had anticipated that this finding would be fully addressed by September 2010. However, due to

extensive discussions and issues raised, Mental Health revised its implementation date to December 2010.

Initially, Mental Health researched legislation on Managed Care and Realignment, as well as internal documents, which explained the MOE requirements.

In addition, Mental Health attempted to locate the fiscal year 1994-95 financial statement used to establish the baseline for SED expenditure, but they could not be found.

In March 2011, the workgroup developed a methodology, which will enable Mental Health to determine the dollar amount expended on approved actual claims for managed care. After the dollar amount is determined, Mental Health will recalculate the managed care percentage for each fiscal year. Mental Health is researching alternatives to determine the percentage used to support the realignment dollars used in its MOE calculation. If Mental Health is not successful in its efforts to reevaluate the percentages used to support the managed care and realignment dollars, then Mental Health will seek guidance from its federal awarding agency to determine how it can adequately determine the threshold.

Also, the workgroup has developed procedures to capture actual expenditure date based on the Governor's Budget for calculating the community mental health services MOE requirement.[6]

Reference Number:	**2010-7-4**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Earmarking. CSD lacks sufficient internal controls to ensure that it meets earmarking requirements. CSD does not have a mechanism in place to track final expenditures related to earmarking requirements.
Status of Corrective Action:	Partially corrected. Contracts and Accounting will set up the line-item budget detail in the Expenditure Activity Reporting System/Program Audit Report Contracts (EARS/PARC) and those dollars will be assigned an object code and tracked separately. The budget line item

	detail in EARS/PARC has yet to be modified by the Information Technology Department. Once it is modified, Accounting will be able to track and reconcile final expenditures.[7]
Reference Number:	**2010-8-1**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Period of Availability. ADP charged expenditures totaling $7,640 to the federal fiscal year 2008 grant after the period of availability. Our review of a sample of five transactions charged after the period of availability found that two of the five transactions were for expenditures obligated in October 2010, after the grant's period of availability ended.
Status of Corrective Action:	Fully corrected. ADP has corrected the errors in its accounting records and has initiated a refund to the federal government to cover the amount of the questioned costs. As indicated in the Bureau of State Audit's finding, ADP has provided additional training and implemented procedures to ensure staff avoid charging expenditures outside the period of availability in the future.
Reference Number:	**2010-9-1**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Procurement and Suspension and Debarment. CSD did not comply with the suspension and debarment requirements in the Administration for Children and Families grants' terms and conditions. CSD developed and implemented a process to consult the federal Excluded Parties List System (EPLA) to ensure the subrecipients are not suspended or debarred; because of the timing of its implementation, this control was not in effect before CSD issued its fiscal year 2009-10 subawards or contracts.

Status of Corrective Action:	Fully Corrected. CSD was credited by the Bureau of State Audits (BSA) for developing and implementing a new process; however, credit was not given for the 2009 year since the control was not in effect during the year BSA was testing.

Reference Number:	**2010-12-1**
Federal Program:	93.044 93.045
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Aging needs to refine its procedures to ensure that the financial status reports it submits to the federal government reflect accurate information. Our review of the revised financial status report for the fiscal year 2006 grant concerning the Title III portion of the Aging Cluster found that Aging overreported its in-kind contributions by $7.1 million as well as the other recipient outlays by $31.4 million. This error caused Aging to also overreport total program outlays less program income - it reported $239 million when it should have reported $200 million.
Status of Corrective Action:	Fully corrected. A corrected 2006 Financial Status Report SF-269 (FSR) that removed the non-match cash and in-kind expenditures was sent to the Administration on Aging on September 13, 2010. To ensure the accuracy of future FSRs, Aging is revising the desk procedures to detail the process for reviewing the accounting report that is used to isolate expenditures for FSR preparation. The procedure will include a list of checkpoints for accuracy. Aging anticipates the revision of the desk procedures to be completed by December 2010.

Reference Number:	**2010-12-2**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. CSD lacks sufficient internal controls to ensure it meets proper federal reporting requirements. Specifically, CSD's written procedures do not include

	steps to reconcile the federal share of program outlays shown in its internally developed spreadsheets to its accounting records.
Status of Corrective Action:	Partially corrected. Procedures have been updated to reconcile CALSTARS and accounting spreadsheets. Procedures for the Community Services Block Grant and Low Income Home Energy Assistance Program have been written and adequately document this process. U.S. Department of Energy (DOE) procedures have been updated, but the written procedures are still in process of being revised. DOE written procedures are anticipated to be completed by mid-July 2011.[8]

Reference Number:	**2010-13-2**
Federal Program:	93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Social Services lack formal processes to ensure it fulfills its pass-through responsibility to monitor the counties during the award period. Specifically, Social Services does not perform monitoring procedures such as on-site visits or desk reviews of the counties' activities to ensure they are administering the program in compliance with federal laws and regulations.
Status of Corrective Action:	Fully corrected. Social Services has completed review of six counties (San Joaquin, San Diego, Los Angeles, Orange, Riverside, and San Bernardino). Social Services will implement a progress report procedure to ensure compliance with the corrective action plan. This report will include what corrective actions were taken to resolve the reported findings. If counties are not in compliance, Social Services will implement ongoing monitoring procedures to eventually bring the County into compliance. Additionally, all claims will be adjusted accordingly for the ineligible costs.

Reference Number:	**2010-13-3**
Federal Program:	93.044 93.045 93.053 93.705

	93.707
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Aging lacks internal controls to ensure it identifies all the required federal award information at the time it awarded Recovery Act funds to its subgrantees. Aging also did not always fully comply with its policies and procedures for monitoring subgrantees' use of funds. Aging's policy requires its program staff to conduct on-site comprehensive assessments of each subgrantee every four years, which includes issuing final reports and corrective action plans to the subgrantees 75 working days after the exit conference it holds at the conclusion of the on-site assessment. Specifically, Aging did not meet its 75-day working day requirement for three out of six comprehensive assessments completed in fiscal year 2009-10.
Status of Corrective Action:	Fully corrected. Aging concurs it did not identify some of the federal award information to the Recovery Act grantees. This was because the finding came well after the contracts and subsequent amendments had already been issued to the grantees. Since the award period was one-time, ending June 30, 2010, and the finding was after-the-fact, Aging did not send out anything additional to the existing Recovery Act contractors. However, in response to the original audit finding, internal procedures were issued via Administrative Memo 10-01, to ensure that any future contracts include this information. Further, this information has been provided to our new Recovery Act grantee by including it in Exhibit D, Special Terms and Conditions, Article X, Audits section of their contract package for 2010-11. In addition, this information is included in the program memos that transmit all of the contracts and amendments to our grantees for our other regular federal grants. Aging will modify its policies and procedures for monitoring sub-recipient activities to specify that Aging has 75 working days from the date of the on-site exit conference to issue its final monitoring report and that sub-grantees have 30 working days from the date the final monitoring report is issued to submit their Corrective Action Plan (CAP). All due dates will be calculated and included in applicable communications to sub-grantees. In addition, these policies and procedures will be modified to specify action steps and dates to ensure sub-recipient

	CAPs are received timely. Aging anticipates this to be completed by November 2010.[9]
Reference Number:	**2010-13-4**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. CSD's audit services unit (ASU) did not always ensure it issued management decisions on audit findings within six months of receipt of subrecipients' U.S. Office of Management and Budget Circular A-133 reports. In our review of eight subrecipients' audit reports, in one case CSD did not issue a management decision within the required six-month deadline.
Status of Corrective Action:	Fully corrected. All audit reports have been reviewed and a management decision issued within six months.
Reference Number:	**2010-13-5**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Child Support Services continues to have problems fulfilling its subrecipient monitoring responsibilities for the Child Support Enforcement program. Although Child Support Services indicated that it held entrance conferences to begin audits with nine local child support agencies (LCSAs) during fiscal year 2009-10, it was unable to complete any of these audits by the end of the fiscal year. Further, Child Support Services did not provide all required federal award information to LCSAs such as the federal award number and amount of Recovery Act funds. Child Support Services took steps to resolve these concerns; however, letter sent to LCSAs in January 2010 identifying amount of Recovery Act funds awarded did not include the award number for the federal fiscal year 2009 award.
Status of Corrective Action:	Fully corrected. Child Support Services has fulfilled its

	monitoring responsibilities by completing all nine plus three additional fiscal audits of the LCSAs. The required federal award information was provided to the LCSAs in the December 2010 allocation letter.
Reference Number:	**2010-13-20**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. ADP's county monitoring unit (CMU) did not follow written policies and procedures requiring supervisory review and approval of all desk and site review reports completed by its staff. Specifically, CMU temporarily assigned senior staff to finalize and sign off on desk and site-visit reports. During our review of a sample of six desk and site review files, we found staff did not always follow the temporary process. Specifically, we found peer reviews were not completed for four reviews. ADP also did not track the resolution of all corrective actions identified in its site and desk reviews to ensure subrecipients are addressing corrective actions promptly. Based on our testing of six county reviews completed by CMU, we found that for five of the reviews, CMU did not formally track resolution of all corrective actions it identified. Furthermore, we found that ADP did not issue one of five management decisions within six months as required. Finally, ADP's audit services branch did not complete and issue a final report for the one county it selected as part of its annual audit plan for fiscal year 2009-10.
Status of Corrective Action:	Partially corrected/remains uncorrected. This finding as it relates to the audit services branch remains uncorrected. We have been working with Alameda County and they in turn have been working with the County Board of Supervisors to approve/make the necessary changes. ADP is in the process of imposing monetary sanctions. As of this date, we have not received the county's corrective action and have now referred this to our accounting branch. They will proceed with monetary sanctions (withholding a percentage of the federal award). Our audit procedures state that management decisions will be issued within six months and we will adhere to that in future years. CMU temporarily modified the report review process in

March 2010 to manage the workload due to staff shortages. The modified process received management approval verbally and was communicated to staff verbally. In the future, any temporary modifications to the review process will be appropriately documented. Also, the County Monitoring Operations Manual, County Monitoring and Negotiated Net Amount (NNA) compliance procedures, PMB-1 are updated annually to reflect ongoing process improvements. The policy and procedures related to the review and approval of desk and site reviews reports have been reviewed. CMU procedures manual has been updated to reflect the supervisor or designated lead analyst will be required to review and approve three county reports per CMU monitoring analyst. After three reports have been reviewed the supervisor or designated lead analyst will determine if the monitoring analyst possess the knowledge to review and finalize their own reports. This determination will be made on a case by case basis. Peer reviews will be required for every report.

ADP has taken several measures to ensure that CMU's staff track and maintain documentation to demonstrate that its subrecipients promptly address corrective actions identified during desk and site reviews completed by CMU. In particular, CMU has updated its corrective action tracking spreadsheet and revised the procedures manual to include a step-by-step process for proper documentation and tracking throughout the course of the review. In addition, CMU management will provide training and follow-up at regularly scheduled staff meetings to ensure staff maintains an understanding of the process and appropriately carries out the new process and procedures.

The final report was issued for the county. The Audit Services Branch has assigned dedicated staff to ensure that this does not happen in the future.[10]

Reference Number:	**2010-14-1**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions. Mental Health has not facilitated peer reviews, but has made progress toward correcting this finding. Specifically, Mental Health

executed a memorandum of understanding to perform peer reviews with the California Mental Health Planning Council (Council) in April 2010. However, the Council did not complete its first peer review report until July 2010, after the end of fiscal year 2009-10.

Status of Corrective Action: Partially corrected. Council has finalized the process for conducting the independent peer reviews, and a Memorandum of Understanding between the Council and Mental Health.

In July 2010, the Council completed its first peer review. The Council plans to issue three reports in fiscal year 2010-11, including the report issued in July 2010.

The Council completed its second peer review in December 2010. The third peer review was conducted in April 2011; however, the report was not completed by June 30, 2011.[11]

Reference Number: **2010-13-1**

Federal Program: 10.561
93.558
93.658
93.659
93.667
93.714

State Administering Department: Department of Social Services (Social Services)

Fiscal Year Initially Reported: 2006-07

Audit Finding: Subrecipient Monitoring. Social Services cannot ensure that federal funds are expended only for allowable activities, that federal funds are expended only in accordance with approved cost-allocation plan for local agencies, and that adjustments included on the county claims are for expenditures made within the two-year limit for claiming payment.

Status of Corrective Action: Fully corrected. Per discussions with the Administration for Children and Families (ACF), Social Services submitted a revised Corrective Action Implementation Plan (CAIP) on December 7, 2010. The ACF accepted Social Services' final CAIP on February 8, 2011. The reviews conducted by Social Services were fiscal monitoring evaluations of county fiscal controls and processes, and were not formal audits. The reviews were conducted between December 2010 and June 2011. The

scope of the reviews was limited to selected cost pools for only one quarter (December 2009). These reviews were conducted in five counties in fiscal year 2010-11, and included a review of the Caseworker Salary and Benefits, Support Staff Salary and Benefits, Support Operating, and Direct Cost pools in the Social Services and California Work Opportunity and Responsibility to Kids (CalWORKs) functions. The review also included an evaluation of county processes to report the federal and nonfederal foster care caseload that was used to develop the nonfederal discount rate for the County Expense Claim (CEC) costs. The county assistance claim back-up for the same period was also reviewed for the Foster Care, Adoptions, and CalWORKs programs. Reviews of Yolo, Alameda, Butte, Los Angeles and San Francisco counties were completed by June 17, 2011. During the site visit, Social Services reviewed assistance payments claimed on the CA 800 Foster Care assistance claim form, as well as associated administration and services costs reported on the CEC. A random sampling methodology was used to determine the number of assistance payments that were reviewed. All back-up summaries, time studies, and payment documentation were reviewed for the administration and services costs reported on the CEC. There was only one situation where a county was required to submit an adjustment claim, which was necessary due to a claim submitted in error with transposed numbers. There were no other monetary findings associated with the assistance, administration, and services costs. There were some minor findings related to the time study documents such as missing identifying information, the use of white out, missing signatures/dates, etc., for which the monitoring team provided technical assistance to county staff to ensure that time studies are filled out correctly in the future. Summary letters of the on-site reviews were provided to ACF.

Reference Number:	**2010-2-6**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Allowable Costs; Subrecipient Monitoring. Housing could not demonstrate that the Home Investment Partnerships Program (HOME) funds it disbursed to State recipients were necessary and reasonable in accordance with the

	U.S. Office of Management and Budget Circular A-87. In response to the prior year's finding, Housing indicated that it would follow a risk-based approach for selecting and reviewing State recipients and conduct reviews of 40 highest-risk recipients. Housing fell short of its goal to monitor 40 State recipients, and in selecting which State recipients it monitored, it did not consistently choose those that it had determined to be at greater risk for noncompliance. Specifically, Housing performed reviews of 10 projects and 10 programs administered by State recipients, for a total of 20 projects reviewed during fiscal year 2009-10. However, of the 10 projects reviewed, only five were in Housing's "top ten" listing of projects with the highest risk. Furthermore, Housing had not issued letters notifying State recipients of the results of the reviews that were performed.
Status of Corrective Action:	Partially corrected. Letters were sent on March 31, 2011 to all jurisdictions monitored in calendar year 2010. The Risk Assessment is nearly done and will be completely done by June 30, 2011. Monitoring visits will be conducted on site for the 20 highest-risk State recipient programs and projects by December 31, 2011. Monitoring letters will be sent to the jurisdictions within 30 days of the visit.[12]

Reference Number:	**2010-7-12**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Matching; Reporting. Housing's overstatements of match amounts from prior fiscal years accumulates and contributes to an overstated excess match balance on its report to Housing and Urban Development (HUD). Although Housing has corrected the double-counting issue with its match amounts, it has not resolved the uncertainty surrounding the accuracy of its excess match balances that carry forward from prior years.
Status of Corrective Action:	Fully corrected. The State has finished reviewing and adjusting its excess match balance, and the 2009-10 match report was sent to HUD by June 15, 2011.

Reference Number:	**2010-12-9**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing still lacks adequate internal controls to ensure the completeness of the Section 3 Summary Report that it submits to the U.S. Department of Housing and Urban Development. Housing began using a computer system to identify and report on those subrecipients that should provide Section 3 data based on the amounts of their subawards. However, Housing did not establish the correct parameters when programming the report, which resulted in excluding certain subrecipients that were required to submit Section 3 data. As a result, Housing's computer-based report did not identify 24 subrecipients out of 130 subrecipients required to submit Section 3 data.
Status of Corrective Action:	Fully corrected. The Community Development Block Grant (CDBG) program analyzed all reports submitted that were not on the tracking list to determine why they reported no Section 3 activity. While the majority did not need to report, some were incorrectly excluded from the list, which could result in approximately 20 contracts. The CDBG program has incorporated the missing activity into the report for next year. The Consolidated Automated Program Enterprise System report for the upcoming reporting period has incorporated the additional codes so that all possible contracts that require reporting will be captured.

Reference Number:	**2010-12-10**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing reported to the Department of Finance that it had more than $93 million in outstanding loans under the Home Investment Partnerships Program

	(HOME). However, Housing had not yet completed its reconciliation at the time it reported this information. As a result, the amount included on the Schedule of Federal Assistance has been potentially understated.
Status of Corrective Action:	Partially corrected. Although significant progress has been made, the reconciliation has not yet been completed. The reconciliation work continues to be a high-priority task and the target completion date is estimated for May 31, 2012 to obtain, review, and reconcile six years of CALSTARS microfiche data.[13]

Reference Number:	**2010-12-11**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing lacks adequate internal controls over the accuracy and completeness of the data it includes in its Section 3 Summary Report.
Status of Corrective Action:	Fully corrected. Housing has developed a report of all subrecipients that received funding for activities subject to Section 3 requirements, and ensured that Section 3 reports were received for all such subrecipients. Housing also contacted a 10 percent sample of those reporting zero Section 3 activity to ensure that their report is accurate.

Reference Number:	**2010-13-17**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Housing did not comply with the requirement to issue management decisions on audit findings within six months after the State's receipt of a local agency's audit report. Housing was late in issuing management decisions for four of the seven subrecipients reviewed, ranging between 16 days and six months late.

Status of Corrective Action:	Fully corrected. Housing has implemented a revised process to ensure management decision letters are issued within the six-month timeframe required by the U.S. Office of Management and Budget A-133. The six-month timeframe begins when the State Controller's Office (SCO) receives the audit reports from the jurisdiction for review and distribution to the various departments. Housing's Audit Division receives the audit report from SCO and distributes the audit information to the program staff for action. Using a Findings Tracking Excel spreadsheet, the Audits Division tracks the date the A-133 audits are sent to program staff, the dates the findings are sent to recipients, and the date the findings are resolved and plan of correction approved. On December 22, 2010, program management began providing the Audit Division with the name of the program staff assigned to issue each management decision letter and the date each management decision letter is expected to be issued. The Audit Division closely monitors the due dates for the management decision letters so these letters will be issued in a timely manner. The Audits Division has established a tracking time period of three months to issue management decision letters from the date received by the SCO. As a result, management decision letters are being issued on a timely basis.

Reference Number:	**2010-13-18**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Housing has taken partial corrective action to address the prior year's finding and did not complete an adequate number of monitoring site visits. Housing indicated that it would complete 16 site visits for Economic Development projects and another 24 site visits for general projects during 2010. We reviewed Housing's site-visit tracking log, we noted that it had completed three site visits of general projects and 13 site visits of Economic Development projects. We also noted that these site visits were not always focused on projects identified by Housing as having the highest risk. For example, of the four general Community Development Block Grant (CDBG) projects with the highest risk score, Housing did not complete any site visits.

Status of Corrective Action:	Partially corrected. The CDBG Section has created a Monitoring Unit, which has begun the process of creating a risk assessment tool, a monitoring procedure, and a monitoring plan. The Monitoring Unit has begun addressing the backlog of reports that have either not gone out or are not cleared. However, the Monitoring Unit has been unable to hire any staff to complete CDBG required monitoring visits due to State's hiring freeze. Even so, it is still impossible to complete his correction action on schedule. Staff in the Monitoring Unit have been trained to enter data into Consolidated Automated Program Enterprise System (CAPES) correctly and have addressed all past entry problems.[14]

Reference Number:	**2010-13-19**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Housing did not issue management decisions on audit findings within six months after the State's receipt of local agency's audit report. We reviewed one audit finding the State Controller's Office (SCO) provided Housing. Housing did not issue its management decision nearly nine months after it was received.
Status of Corrective Action:	Fully corrected. Housing has implemented a revised process to ensure management decision letters are issued within the six-month timeframe required by the U.S. Office of Management and Budget (OMB) A-133. The six-month timeframe begins when the SCO receives the audit reports from the jurisdiction for review and distribution to the various departments. Housing's Audit Division receives the audit report from SCO and distributes the audit information to the program staff for action. Using a Single Audit Information System Data Base and a Findings Tracking Excel spreadsheet, the Audits Division tracks the date the OMB A-133 audits are sent to program staff, the date the findings are sent to recipients, and the date the findings are resolved and plan of correction approved. On December 22, 2010, program

	management began providing the Audit Division with the name of the program staff assigned to issue each management decision letter and the date each management decision letter is expected to be issued. The Audit Division closely monitors the due dates for the management decision letters so these letters will be issued in a timely manner. The Audits Division has established a tracking time period of three months to issue management decision letters from the date received by SCO. As a result, management decision letters are being issued timely.
Reference Number:	**2010-1-7**
Federal Program:	16.606
State Administering Department:	Department of Corrections and Rehabilitation (Corrections)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs. Corrections submitted ineligible inmate data in its federal fiscal year 2009 application for the State Criminal Alien Assistance Program funding. Specifically, Corrections' application included nearly 2,000 additional records in instances where an inmate had more than one Alien Registration Number for the same incarceration period. In addition, we reviewed a sample of 29 records to determine the inmates' citizenship status. For 10 inmates, Corrections had information in its files that these inmates were either U.S. citizens or permanent residents.
Status of Corrective Action:	Partially corrected. In an ongoing effort to comply with the Bureau State Audits' (BSA) recommendation to seek the guidance from the federal government, staff of Correction's Office of Legislation (OOL) and Offender Information Services Branch has attended training provided by the Department of Homeland Security (DHS). The training familiarized staff with the DHS Secured Communities Program- a program created by DHS to assist law enforcement agencies in obtaining immediate citizenship status of offenders. Corrections is also working with the DHS/Immigration and Customs Enforcement (ICE) to develop an electronic process for obtaining information pertaining to the findings of ICE investigations. These findings would be provided to Corrections on a routine basis and would assist Corrections in validating alien numbers and citizenship

	status. The BSA findings that characterized Corrections of falsely submitting the 2,000 additional records are misleading. After several discussions with DHS/ICE, it has been confirmed that the 2,000 additional records are a valid representation of the California alien population. The DHS/ICE has informed Corrections that there are individuals with multiple alien numbers. For those individuals whose alien numbers can be consolidated, the DHS/ICE is in the process of consolidating these multiple alien registration numbers into one master alien number. The DHS has not yet completed this process.[15]

Reference Number:	**2010-1-1**
Federal Program:	17.245
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/ Allowable Costs; Eligibility. EDD lacks adequate controls to ensure its field offices made appropriate eligibility determinations for the Trade Adjustment Assistance (TAA) program. Although EDD had policies and procedures in place for the entire 2009-10 fiscal year, it only recently implemented them. Because EDD had not completed full implementation of its policies and procedures until after our period of review, the finding remains uncorrected for fiscal year 2009-10.
Status of Corrective Action:	Fully corrected. EDD revised its TAA Training Plan in September 2008. The TAA Training Plan serves as a control document and is published on EDD's Intranet, which allows specialist day-to-day access to current program policies and procedures. In addition, EDD developed new TAA monitoring guidelines in July 2009. EDD has proper monitoring procedures in place for TAA and is continuing this practice.

Reference Number:	**2010-9-2**
Federal Program:	17.207 17.801 17.804
State Administering Department:	Employment Development Department (EDD)

Fiscal Year Initially Reported:	2007-08
Audit Finding:	Procurement, Suspension and Debarment. EDD's procedures related to suspension and debarment were in place for the entirety of fiscal year 2009-10; however, EDD did not fully implement those procedures. Specifically, EDD's updated desk procedures require that every contract over $25,000 have either a suspension and debarment certificate included in the file or an Excluded Parties List System (EPLS) printout verifying that the proposed vendor is not excluded or disqualified. For one of the 12 contracts reviewed, EDD checked the vendor against the EPLS nearly five months after the contract was awarded.
Status of Corrective Action:	Fully corrected. In January 2011, EDD implemented a revised Procurement Checklist along with a review and approval process that resolved this finding. The checklist provides detailed information on what documents shall be included in the procurement file, including the Excluded Parties List System (EPLS) printout. The revised process includes multiple levels of management reviews and approvals.

Reference Number:	**2010-13-7**
Federal Program:	17.258 17.259 17.260
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. EDD does not monitor all of its non-Local Workforce Investment Areas (LWIA) to ensure that non-LWIAs are complying with federal laws, regulations, and provisions of contracts or grant agreements and that performance goals are achieved. Specifically, EDD's Compliance Monitoring Section only monitored 13 of the 48 non-LWIAs that received funding in fiscal year 2009-10.
Status of Corrective Action:	Fully corrected. EDD has hired additional staff to conduct monitoring of the non-LWIAs and completed monitoring of all non-LWIAs in January 2011.

Reference Number:	**2010-14-2**

Federal Program:	17.225
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Special Tests and Provisions. EDD's financial management systems did not allow it to separately identify and report on American Recovery and Reinvestment Act of 2009 (Recovery Act) funds. Specifically, the Unemployment Insurance (UI) program expended $24.8 billion, which included both Recovery Act and non-Recovery Act funds. However, EDD was not able to identify what portion of the total expenditures was paid with Recovery Act funds.
Status of Corrective Action:	Partially corrected. EDD has partially completed programming changes to revise the 58 different financial reports needed to correct this finding. EDD can and has been reporting all the benefits paid by each federal extension. This finding only pertains to the current inability to identify which federal extension payments should be charged to the different federal accounts. Because of the complexity of the reports and the other extension-related work, the programming is not yet complete. In addition, the federal Department of Labor's clarification of the reporting requirements for Federal Additional Compensation (FAC) funds required additional programming to separate Recovery Act funds and "post-Recovery Act" funds. The FAC funds were initially identified as 100 percent Recovery Act funds. Half of the reports went into production in December 2010 with plans to complete the remainder by mid-2012. The completion date for all programming was changed due to the additional programming required to accurately report on FAC funds/expenditures, the need to share Information Technology Branch resources with other priority UI automation projects, and project schedules that require a "code freeze" to ensure the proper deployment of EDD's new systems. After release, the remaining financial reports will be rerun beginning with State fiscal year 2008-09 and reviewed to identify proper adjusting entries to the accounting records. EDD expects this effort will take an additional few months to complete.[16]

Reference Number:	**2010-2-1**

Federal Program:	96.001
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Allowable Costs/Cost Principles. Social Services could not substantiate some of the payroll expenditures it charged to the Disability Insurance program. Specifically, Social Services did not distribute the payroll expenditures using the actual time spent working on activities related to the program. Instead, Social Services used percentages to distribute the payroll expenditures that were based on a time study occurring before January 2009, which Social Services was unable to provide.
Status of Corrective Action:	Fully corrected. As of October 25, 2010, staff in the Financial Services Bureau began completing monthly employee time study reports which reflect the actual activities being performed and for which the employees are being compensated. Current staff have been trained on the correct procedures for completing time study reports.

Reference Number:	**2010-3-4**
Federal Program:	20.205
State Administering Department:	California Department of Transportation (Caltrans)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Cash Management. Caltrans lacks adequate internal controls to ensure that it consistently adhered to the funding techniques specified in the Treasury-State Agreement (TSA) for the Highway Planning and Construction program. Specifically Caltrans did not comply with the "pre-issuance" funding technique. Also, for fiscal year 2009-10 TSA was not amended to reflect any changes in the funding techniques or how Caltrans was actually drawing down federal funds for the program. Furthermore, we noted an inconsistency regarding how Caltrans calculates how long it holds onto federal funds when preparing its interest calculation.
Status of Corrective Action:	Partially corrected. Caltrans has policies and controls in place to ensure compliance with the current TSA. However, the TSA could be more explicit in terms of methodology. On January 31, 2011, Caltrans requested

	the Department of Finance to process an amendment to the TSA to be more explicit about (1) the calculation of the clearance patterns, and (2) the funding techniques used for federal reimbursement under the Federal Highway Administration's Advance Construction Program.[17]
Reference Number:	**2010-7-10**
Federal Program:	20.205
State Administering Department:	California Department of Transportation (Caltrans)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Matching. Caltrans lacks adequate internal controls to ensure noncompliance with the matching requirement would be prevented or detected in a timely manner. Specifically, Caltrans lacks procedures to ensure its staff enters the correct federal reimbursement rates into the Current Billing and Reporting System.
Status of Corrective Action:	Fully corrected. Caltrans has policies and procedures in place that result in accurate reporting of data, but those procedures did not require verification by a supervisor. It is important to note the Single Audit Report did not identify any instances where the federal reimbursement rate was entered incorrectly. Caltrans has implemented procedures to address this issue. Currently, Caltrans is performing periodic random sampling of projects to ensure that the federal reimbursement rate is accurate. Documentation of these reviews is maintained.
Reference Number:	**2010-13-6**
Federal Program:	20.205
State Administering Department:	California Department of Transportation (Caltrans)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Subrecipient Monitoring. Caltrans lacks internal controls to ensure subrecipients who spent more than $500,000 during fiscal year 2008-09 submitted audit reports to the federal government as required under the U.S. Office of Management and Budget (OMB) Circular A-133. We identified 24 subrecipients that had no record of an audit submission on the federal audit clearinghouse's website for fiscal year 2008-09. Caltrans also lacks internal controls to impose sanctions on subrecipients that failed

	to meet OMB Circular A-133 audit requirements. The lack of audit reports by the subrecipients previously described also limits Caltrans' ability to review and issue management decisions on potential findings and exercise effective oversight of the Highway Planning and Construction program.
Status of Corrective Action:	Fully corrected. Caltrans has implemented procedures to address this issue. Caltrans monitors the State Controller's Office website for subrecipients that have not yet submitted Single Audit Reports. Lists of noncompliant subrecipients are compiled and forwarded to the appropriate Caltrans Divisions for follow-up and resolution. Noncompliant subrecipients are required to submit their audits. The respective Caltrans divisions will sanction noncompliant subrecipients, if necessary.[18]

Reference Number:	**2010-1-4**
Federal Program:	64.005
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Activities Allowed/ Allowable Costs, Matching, Suspension and Debarment. Veterans Affairs continued to lack written policies and procedures throughout fiscal year 2009-10 regarding the Department of General Services' (General Services) payments to contractors and verification that contractors are not suspended or debarred.
Status of Corrective Action:	Fully corrected. Veterans Affairs Capital Assets Policies and Procedures were placed into effect in October of 2010. Procedures for suspension and debarment verification are currently being followed by General Services.

Reference Number:	**2010-4-1**
Federal Program:	64.005
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008-09

Audit Finding:	Davis-Bacon Act. The Department of General Services (General Services), under the supervision of Veterans Affairs, did not always obtain an appropriate payroll certification, known as a statement of compliance, from the all of its contractors. We reviewed three of the 26 weekly payrolls that were submitted from January 2010 through June 2010 and found that at least one contractor submitted a certification with its payrolls that did not meet the federal requirement. Further, Veterans Affairs continued to lack written policies and procedures to communicate formally to General Services all applicable Davis-Bacon requirements throughout fiscal year 2009-10.
Status of Corrective Action:	Fully corrected. Veterans Affairs Capital Assets Policies and Procedures were placed into effect in October 2010. Procedures for obtaining all applicable Davis-Bacon requirements are currently being met by General Services.

Reference Number:	**2010-12-3**
Federal Program:	64.005
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. The Department of General Services (General Services), under the supervision of Veterans Affairs, does not have a sufficient process for reporting the amounts spent by category on the request for reimbursement. Also, Veterans Affairs lacked policies and procedures to improve General Services' reporting of expenditures and Veterans Affairs oversight of the reporting process throughout fiscal year 2009-10.
Status of Corrective Action:	Fully corrected. Veterans Affairs Capital Assets Policies and Procedures were placed into effect in October of 2010. Procedures for improvement of expenditures are currently be followed by General Services.

Reference Number:	**2010-12-4**
Federal Program:	64.114
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. Veterans Affairs did not always report the required events to the U.S. Department of Veterans Affairs within the applicable reporting deadlines. Further, Veterans Affairs lacks a process to use the information in its systems to determine which borrowers no longer have delinquent payments. Finally, for the first eight months of fiscal year 2009-10, delinquent loans reported to the credit bureau were not always reported to the U.S. Department of Veterans Affairs.
Status of Corrective Action:	Fully corrected. Automated reporting has been created and is being tested in the live environment. This will resolve the reporting deadline issue as stated in the "findings". Included in the automated process is the capturing and reporting of accounts that are no longer delinquent. None of these previous findings have or will have any negative impact on the department's ability to file claims.[19]

Reference Number:	**2010-3-2**
Federal Program:	10.557
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Cash Management. Public Health did not comply with the three-day requirement in the Cash Management Improvement Act. In our sample of 65 drawdowns, we noted 2 drawdowns were issued five and nine days after the drawdown request.
Status of Corrective Action:	Fully corrected. On September 7, 2010, Public Health's Accounting Payables Management team met with State Controller's Office (SCO) Claims Audit Unit. The SCO agreed in this meeting to notify Public Health of the expected claim cut of an invoice payment schedule involving federal funds. Public Health's Accounting Federal Reporting Unit will then adjust the federal draw as needed to account for this cut in expenditures. In addition, on October 18, 2010, the Public Health's Accounting Payables and Federal Unit met to verify timing of federal draws with claim schedule payments. The Federal Reporting Unit will be notified when a claim schedule is going to be held for corrections or additional

processing before going to SCO.

As of October 19, 2010, Public Health's Accounting has updated written procedures to document the enhanced procedures with SCO and between the Public Health's Accounting Units to ensure payments to subrecipients are issued as close as is administratively feasible to the State's actual cash outlay.

Reference Number:	**2010-1-5**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Activities Allowed/ Allowable Costs. Findings cited in the annual Medi-Cal Payment Error Study (2007) revealed that 6.56 percent of the total dollars paid for claims had some indication that they contained a provider payment error, 2.53 percent of paid claims were submitted by providers that disclose characteristics of potential fraud, and 46 percent of the payments for claims with errors did not have sufficient documentation to support the services claimed. Based on the error percentage related to Medi-Cal payments, the risk of noncompliance with allowable costs and activities is considered material.
Status of Corrective Action:	Partially corrected. Health Care Services will continue to implement the corrective action steps outlined in the 2007 Medi-Cal Payment Error Study (MPES). Health Care Services has made a commitment to routine systematic measurement as part of a comprehensive anti-fraud strategy through the MPES process. The bi-annual MPES provides opportunities for identifying new patterns of payment errors and areas of potential fraud, waste, and abuse in the Medi-Cal program. Health Care Services has initiated corrective actions for all providers identified in the 2007 MPES against which actions were warranted. In addition, Health Care Services took additional actions to focus anti-fraud efforts on those areas identified by the study as most vulnerable to fraud and abuse. These additional actions included: additional on site reviews of pharmacies, Adult Day Health Centers (ADHC) and Non-Emergency Medical Transportation (NEMT); expanded use of new technology to better

identify potential fraud schemes; reform of the ADHC program; an increase in the number of investigational and routine field compliance audits; and development of a joint action plan with provider regulatory boards and provider associations to address provider claiming errors identified as potential fraud and abuse.

MPES 2007 also identified the need to increased outreach and education to improve provider documentation of medical necessity. Health Care Services has subsequently worked with the California Association for Adult Day Services, American Russian Medical Association, California Medical Association, Medical Board of Pharmacy, and the Centers for Medicare and Medicaid Services to develop outreach, education, and training for improved compliance with documentation requirements.

The 2009 MPES is complete and under review by management.[20]

Reference Number:	**2010-1-6**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/ Allowable Costs. Health Care Services lacks sufficient internal controls to ensure only medically necessary claims and eligible providers are paid and the providers are observing record retention rules. Of the 50 fee-for-service claims reviewed, ten included exceptions: claims were not deemed medically necessary and the services were not properly documented.
Status of Corrective Action:	Partially corrected. Health Care Services continues to perform pre and post-payment reviews including Random Claims Review, Self-Audits, Desk Audits, Field Audit Reviews, and Audits for Recovery. Health Care Services conducts focused reviews on provider types identified as high risk. Health Care Services also provides provider education to prevent common problems and potential issues. Health Care Services continues to conduct a biannual Medi-Cal Payment Error Rate Study (MPES) to identify potential problem trends. MPES has identified

	documentation and medical necessity issues with pharmacies, adult day health centers (ADHC), local educational agencies (LEA) and non-emergency medical transportation (NEMT) providers. As a result, projects such as the Pharmacy Outreach Project which reviewed over 2,000 pharmacies and the NEMT Project which reviewed approximately 200 NEMT providers were developed. Health Care Services has completed several ADHC projects, reviewing over 100 ADHCs. Also, an independent extended review of LEAs was conducted by the State Controller's Office and was part of the MPES 2007 report. The measured error rate has steadily declined since the inception of MPES.[21]
Reference Number:	**2010-2-2**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Allowable Costs. Health Care Services does not ensure that drug utilization data are provided to drug manufacturers/labelers on a timely basis.
Status of Corrective Action:	Fully corrected. Health Care Services has modified the Rebate Accounting Information System (RAIS) on October 30, 2009, to allow the invoicing process to be more efficient and require less manual reviewing, thus allowing for timely mailing of the invoices. Health Care Services is now meeting the deadlines for submitting the Utilization reports to the drug manufacturers. However, though the Centers for Medicare and Medicaid Services (CMS) Guidelines use a sixty-day window after the quarter for submission of the utilization reports to drug manufacturers, the States continue to be penalized when CMS is late in submitting or making available the quarterly drug rebate files to the States. These factors should be considered when an audit is performed to ensure that CMS is submitting the quarterly drug rebate files within 45 days of the end of the quarter which then gives the States 15 days after receipt of the file as stated in the guidelines.[22]
Reference Number:	**2010-2-3**
Federal Program:	93.778

State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Allowable Costs. Health Care Services has contracted with California's Department of Social Services (Social Services) to implement the Personal Care Services Program (PCSP) of the Medicaid grant. Health Care Services and Social Services lack controls to ensure PCSP claim forms are properly obtained and stored. Of the 25 claim forms selected for review, one provider claim totaling $180 could not be located.
Status of Corrective Action:	Partially corrected. Social Services has moved forward with a new Case Management Information and Payroll System (CMIPS) to enhance controls related to the PCSP in order to ensure claim forms are properly obtained and stored. CMIPS II was created to award and administer a contract to design, develop, maintain, and operate a replacement for legacy CMIPS. CMIPS II will be the only State system that processes Medi-Cal claims for In-Home Supportive Services programs and provides paid claims information to Health Care Services for analysis and reporting. CMIPS II will provide enhanced automation and improve the integrity and quality of program support for the all program initiatives. CMIPS II is in its fourth year of Design, Development, and Implementation. It is currently in the User Acceptance Testing phase, which is the last test phase to be completed before pilot activities can begin. The first pilot counties, Merced and Yolo, are scheduled to "go live" in the fall of 2011 and San Diego, as the final pilot county, is scheduled to "go live" one month later. The implementation of the remaining counties is expected to last an additional 15 months.[23]

Reference Number:	**2010-2-4**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2009-10

Audit Finding:	Allowable Costs/ Cost Principles (ADP and Risk Analysis). The State's fiscal intermediary, Electronic Data Systems (EDS), manages Medi-Cal network systems in accordance with EDS policies and are protected against unauthorized access, intrusion, and virus attack. The SAS 70 Audit report for EDS noted that EDS did not consistently perform monitoring over their network security related to their firewall configuration and their antivirus software updates.
Status of Corrective Action:	Fully corrected. Health Care Services, in conjunction with Hewlett-Packard (HP), made the following changes to improve the monitoring of network security related to firewall configuration and anti-virus updates: (1) HP updated the Medi-Cal Network Security Standards and Guidelines on July 1, 2009 to include semi-annual firewall configuration reviews (2) HP updated the Medi-Cal Network Security Standards and Guidelines manual on February 15, 2010 to state that Security Architects would perform the reviews. Firewall configuration reviews were performed in March and September 2010. The firewall configuration logs were reviewed by HP and Health Care Services staff. The logs were clean for March 2010. There was a finding that old user IDs were present on the September 2010 logs, but they were still within the allowable timeframe. HP will modify the Medi-Cal Network Security Standards and Guidelines manual to include semi-annual anti-virus update reviews that will be performed every March and September by the Security Architects. The September 2010 review will be performed, this year only, in October 2010. All reviews will be stored in the Security folder in LiveLink.

Reference Number:	**2010-3-1**
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Cash Management. Public Health did not comply with the three-day requirement in the Cash Management Improvement Act. In our sample of 65 drawdowns, we noted four drawdowns were issued between 16 and 55 days after the drawdown request.

Status of Corrective Action:	Fully corrected. On September 7, 2010, Public Health's Accounting Payables Management team met with State Controller's Office (SCO) Claims Audit Unit. The SCO agreed in this meeting to notify Public Health's of the expected claim cut of an invoice payment schedule involving federal funds. Public Health's Accounting Federal Reporting Unit will then adjust the federal draw as needed to account for this cut in expenditures. In addition, on October 18, 2010, the Public Health's Accounting Payables and Federal Unit met to verify timing of federal draws with claim schedule payments. The Federal Reporting Unit will be notified when a claim schedule is going to be held for corrections or additional processing before going to SCO. As of October 19, 2010, Public Health's Accounting has updated written procedures to document the enhanced procedures with SCO and between the Public Health's Accounting Units to ensure payments to subrecipients are issued as close as is administratively feasible to the State's actual cash outlay.

Reference Number:	**2010-5-3**
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Eligibility. Public Health continues to lack sufficient internal controls over the eligibility process to ensure payments are only made to eligible recipients and all required documentation to verify eligibility is maintained in the recipient's file. Public Health lacks controls for following up on findings related to site visits.
Status of Corrective Action:	Fully corrected. Public Health agrees with the finding that Public Health lacked sufficient internal controls over the eligibility process to ensure payments are only made to eligible recipients and all required documentation to verify eligibility is maintained in the recipient's file. The AIDS Drug Assistance Program (ADAP) has fully implemented corrective action regarding eligibility documentation and site visits in fiscal year 2010-11. The changes included an acceleration of the ADAP enrollment site visit cycle from every five years to every three years as well as an updated site visit tool. In fiscal year 2010-11, ADAP

	coordinators conducted 72 site visits and plan to conduct 60-70 in fiscal year 2011-12. Based on the current site visit plan, ADAP will meet its three year audit cycle at the end of fiscal year 2012-13. Programmatic procedural changes include tracking client files that have documentation deficiencies. These clients are placed on a 60 day eligibility grace period to receive the missing documentation or the client's eligibility is terminated at the end of the 60 days. Any site that is found deficient is required to submit a Corrective Action Plan (CAP), and a follow up site visit is conducted to ensure the CAP was implemented. Finally, ADAP is continuing to work with Medi-Cal and the Pharmacy Benefits Manager to enhance the systems for identifying clients' Medi-Cal eligibility. Corrective action was completed in August 2010 when the site visit tool was finalized and site visits began.[24]

Reference Number:	**2010-5-4**
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Eligibility. Public Health utilizes site visits to monitor enrollment sites to ensure payments are made to eligible recipients. In the current year, no site visits were conducted by the HIV Care Program and no other processes for monitoring eligibility were identified.
Status of Corrective Action:	Remains uncorrected/disagree with finding. Public Health disagrees with the finding that no site visits were conducted by the HIV Care Program and no other processes for monitoring eligibility were identified. The finding for fiscal year 2009-10 monitoring visits was inaccurate. At that time, Health Resources and Services Administration monitoring standards required site visits once in a three year contract period in which we were in compliance because all sites had been visited within a three year cycle.[25]

Reference Number:	**2010-5-5**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)

Fiscal Year Initially Reported:	2005-06
Audit Finding:	Eligibility. Health Care Services lacks adequate internal controls to obtain and track the enrollment presumptive eligibility identification numbers issued to prevent unauthorized use of identification numbers. Health Care Services does not perform procedures to authenticate the existence of the recipient, prevent duplicate issuances, and reconcile the presumptive eligibility numbers with the recipient enrollment listing filed during the claims adjudication process.
Status of Corrective Action:	Remains uncorrected. Health Care Services lacks the necessary resources to develop and implement automated systems to address this finding at this time. The Patient Protection and Affordable Care Act (PPACA) of 2010 provides an opportunity to implement a solution to this problem. As required by the PPACA and with the passage of SB 900 (Chapter 659, Statutes of 2010) and AB 1602 (Chapter 655, Statutes of 2010), California will establish the California Health Benefits Exchange (Exchange). A component the Exchange has is the ability to screen for and enroll eligible individuals into the Medi-Cal program, utilizing a web-based enrollment portal and streamlined eligibility processes. The Exchange provides an opportunity to allow Presumptive Eligibility (PE) Qualified Providers to complete the PE enrollment for eligible pregnant women using an internet-based application that will provide real-time validation with the Statewide Medi-Cal Eligibility Data System. This will result in the assignment of a Client Index Number for tracking and billing purposes; thereby eliminating the possibility of duplicate issuances of identification numbers and will provide a means of authentication of enrolled individuals. Currently, Health Care Services is analyzing the Medicaid provisions of PPACA and is awaiting guidance from the federal Centers for Medicare and Medicaid Services and implications for modernizing current PE processes for pregnant women. Health Care Services is in the process of revising the current enrollment form to include instructions for providers to inform pregnant women of additional options available to apply for Medi-Cal by telephone or use a web-based application to remove the requirement for this population to submit the application in-person or the mail. The additional options could reduce the length of time this population is served under PE.[26]

Reference Number:	**2010-5-6**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Eligibility. Health Care Services lacks adequate internal controls over its redetermination requirements for Medi-Cal beneficiaries to ensure benefits are discontinued when redeterminations are not received within 12 months of the most recent redetermination date and when proper citizenship is not obtained.
Status of Corrective Action:	Partially corrected.

Redeterminations: Pursuant to State statute and federal requirements, counties must complete redeterminations within specified timeframes. Health Care Services reinforces this policy through written guidance in the form of All County Welfare Directors Letters. Additionally, Health Care Services conducts semi-annual Medi-Cal Eligibility Quality Control (MEQC) reviews and operates a County Performance Standards (CPS) program. Under CPS, counties self certify performance standards relative to the timeliness of county processing of applications and redeterminations. Counties that do not demonstrate adequate performance through either self-certifications or independent State reviews are required to document written corrective action plans (CAP) to demonstrate remedial efforts with required quarterly reports to demonstrate progress on remedial actions. Health Care Services will continue in its efforts to reinforce the expectations that counties complete redeterminations on a timely basis and assure that documentation is available for review in county case files consistent with State policies. This reinforcement will be in the form of both verbal and written communication to the counties when findings present that are not consistent with State policy.

Citizenship Documentation: Effective July 1, 2006, State Medicaid programs have been required to have citizenship and identity documentation on individuals seeking program services. Since January 2010, Health Care Services had relied on an automated system match of social security numbers (SSNs) with the federal Social Security Administration as its primary means to verify citizenship and identity. This verification matching

process has increased accuracy and improved the documentation of citizenship and identity for individuals seeking or enrolled in Medi-Cal. To date, California has experienced an approximate success rate of 94 percent of SSNs being validated by this means. To the extent the electronic SSN match process does not yield a successful result and the beneficiary or the county is unable to correct issues relative to achieving a successful SSN match, the State requires counties to rely on existing procedures whereby appropriate paper documents such as passports, drivers licenses and birth records can be used to validate citizenship and identity status.

Health Care Services has reinforced this requirement through the release of All County Welfare Director's Letters and evaluates such documentation when conducting MEQC reviews. As deficiencies are noted with citizenship documentation, this information is communicated both verbally and in writing to the counties. Health Care Services will continue to reinforce to the counties the requirements to have citizenship documentation in case records.

Health Care Services will discuss the audit findings and corrective action with the affected counties. On April 22, 2011, Health Care Services issued All County Welfare Directors Letter 11-19 which informs counties that if the county MEQC case error rate is 10 percent or higher, Health Care Services may impose a CAP requirement. If Health Care Services finds that a county is having significant problems with either redeterminations or citizenship documentation, it can require that county to develop and implement a CAP on one or both of these program areas. Health Care Services will monitor the county's progress on each CAP and will also conduct a follow-up review to evaluate the efficacy of the county's corrective action measures.[27]

Reference Number:	**2010-7-5**
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Earmarking. Public Health lacks adequate record-keeping process and policies and procedures to determine that the use of grant funds properly reflects earmarking requirements.

Status of Corrective Action:	Fully corrected. Public Health agrees with the finding that we lacked a sufficient record-keeping process and policies and procedures to determine that the use of grant funds properly reflected earmarking requirements. Office of AIDS (OA) has implemented procedures to more thoroughly document and support any information that is reported for this grant to ensure that the use of grant funds properly reflects earmarking requirements. Information (such as Public Health's Accounting CALSTARS Online Reporting Environment Reports) are saved electronically, in a central network file that is accessible by program staff, administrative staff, and the OA. In addition to supporting materials, the documentation process will include a summary narrative of steps taken to prepare and submit grant reports. Staff and management from OA's Age Drugs Assistance Program Branch, HIV Care Branch, Administration Section and Division Office are now included in the process of preparing and submitting reports to fulfill mandatory grant earmarking reporting requirements. OA has implemented procedures to more thoroughly document and support any information that is reported for this grant and all other grants. Corrective action was completed in August 2010. Written procedures for the OA Fiscal Management Section were updated in August 2010. Additionally, trainings were implemented for Fiscal Management Section staff on a bi-weekly basis and continue to occur as new staff are hired and/or procedures are updated.

Reference Number:	**2010-12-5**
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. Public Health lacks sufficient policies to ensure proper completion and review of its annual financial status report. Specifically, Public Health was not able to provide adequate supporting documentation to support the amount reported in its 2010 annual financial status report.
Status of Corrective Action:	Fully corrected. Public Health agrees that it needs to enhance current policies and procedures to ensure that supporting documents and calculations are retained to ensure compliance with specified reporting and document

	retention requirements. Public Health completed written desk procedures on how to calculate indirect costs when the grant budget period crosses State fiscal years and the approved Indirect Cost Rate Proposal is different for the two fiscal years on February 9, 2011. The Federal Reporting Unit desk procedures were also enhanced on February 9, 2011, to reiterate that supporting CALSTARS reports and indirect cost calculations be retained to support the Federal Financial Report. Staff were trained on February 9, 2011 on these desk procedure updates.
Reference Number:	**2010-12-6**
Federal Program:	93.268
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Reporting. Public Health did not maintain supporting documentation for the cumulative expenditures reported in its Federal Financial Report SF 425 (A) for June 2010.
Status of Corrective Action:	Fully corrected. Public Health agrees with the recommendation to enhance current policies and procedures to ensure that supporting documents and calculations are retained, to ensure compliance with specified reporting and document retention requirements. Immunization Branch (IZB) has implemented a more thorough procedure to document and track expenditures report monthly. Expenditure reports and copies of CALSTARS are saved electronically in a central file for easy access by admin staff and management. Program continues to reconcile expenditure report monthly and identify any discrepancies between Program records and CALSTARS. Public Health's Accounting continues to review and reconcile supporting documents monthly and collaboratively work together with Public Health's IZB to ensure that any necessary corrections are successfully completed. This includes comparing source documents held within IZB against CALSTARS expenditure reports created and updated by Accounting.
Reference Number:	**2010-13-9**
Federal Program:	93.069
State Administering Department:	Department of Public Health (Public Health)

Fiscal Year Initially Reported:	2009-10
Audit Finding:	Subrecipient Monitoring. Public Health lacks policies and procedures to ensure that the identifying number of the federal program is included in each of its subgrant agreements.
Status of Corrective Action:	Partially corrected. Public Health agrees with the recommendation to implement policies and procedures to ensure that the identifying number of federal program is included in each of its subgrant agreements. Public Health is incorporating the identifying Catalog of Federal Domestic Assistance (CFDA) number into the 2011-12 Local Guidance and Agreements. Local guidance and local agreements are in rough draft with the federal CDFA numbers. Public Health will issue the guidance at a training session on August 10, 2011. Local health departments and local hospital preparedness program entities will have 60 days to submit the application including the signed agreement with the CDFA numbers.[28]

Reference Number:	**2010-13-10**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Subrecipient Monitoring. Health Care Services did not conduct site visits of local government agencies (LGAs) as required. Only one LGA site visit was conducted during the current fiscal year when 22 site visits should have been performed as the previous visits were more than four years ago.
Status of Corrective Action:	Partially corrected. It was the intent of the County Based Medi-Cal Administrative Activities (CMAA) Unit to conduct 16 LGA site visits during fiscal year 2010-11 to comply with Medicaid funding requirements which indicate LGA site visits must be conducted at least once every four years. However, due to the delayed passage of the State Budget in November 2010 and a Governor's order restricting non-essential travel in May 2011, the CMAA Unit only had five months to work towards compliance. The CMAA Unit was able to conduct and complete 11 of the planned 16 LGA site visits in fiscal year 2010-11; however, due to the aforementioned issues, five of the LGA site visits were not conducted. Currently the CMAA

	Unit staff is developing a desk review process that will meet the Medicaid funding requirements and not require travel. It is the intent of the CMAA Unit to complete the outstanding site visits in fiscal year 2011-12 through the desk review process and still achieve compliance with the LGA monitoring policy by June 30, 2012.[29]
Reference Number:	**2010-14-3**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Special Tests and Provisions – Managed Care. Health Care Services did not ensure grievance hearings are scheduled on a timely basis. Specifically, Health Care Services should schedule a hearing 90 days from the date of request by the enrollee. We reviewed 25 State hearing cases, and five did not appear to be scheduled or resolved within 90 days of the initial enrollee request date.
Status of Corrective Action:	Fully corrected. Through a Delegation Order, Health Care Services has delegated the scheduling of State Hearings to the Department of Social Services (Social Services). Health Care Services' Managed Care Ombudsman coordinates State Hearings between Social Services and the Medi-Cal Managed Care Organizations, ensuring timely communication of new State Hearings, or other status updates. On November 9, 2010, Health Care Services received the first Uncalendared Case Listing Report from Social Services. Social Services submits this report weekly for review by the Medi-Cal Managed Care Division (MMCD) Ombudsman. For hearings not scheduled within 60 days, Ombudsman staff checks to see if the hearings have been postponed or re-opened; they also verify that Social Services has provided an explanation for the delay. If the unscheduled hearings have not been postponed or re-opened, Health Care Services staff contact Social Services for an explanation for the delay and remind Social Services to make sure the hearings are scheduled prior to the 90 day requirement. So far, for those hearings not scheduled within 60 days and for which Health Care Services have contacted Social Services, all hearings were scheduled the following week and prior to the 90 day requirement.

Reference Number:	**2010-14-4**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions – Provider Eligibility. Health Care Services and Public Health did not retain the federally required provider agreements for four of the 50 providers sampled.
Status of Corrective Action:	Partially corrected. Provider Enrollment Division (PED) updated its provider enrollment process to require provider agreements and continues its plan to re-enroll all Medi-Cal providers as a continuous process as resources are available. In addition, PED continues to work in conjunction with Audits and Investigations to re-enroll providers identified as high risk, including the re-enrollment of identified pre-1999 providers. Re-enrolled providers are required to submit a re-enrollment application package updated to current federal standards to retain Medi-Cal eligibility. PED has also updated its requirements so that all providers must submit a new application package to report a new, additional, or change of service location. In addition, State law requires that a new application be submitted when there is a change in business entity. Health Care Services continually verifies provider information to ensure compliance with State and federal requirements in its ongoing re-enrollment efforts. Public Health's Licensing and Certification Division is responsible for determining the eligibility of facility providers. Per Interagency Agreement 07-65492 executed in fiscal year 2007-08, Public Health collects, maintains, and stores enrolled facility provider records, including provider agreements. In 2008, a new provider agreement was jointly developed for facility providers by Health Care Services and Public Health. Public Health continues to collect new provider agreements from facility providers and forwards copies of the provider agreements to PED for Health Care Services records. Since June 2010, provider agreements have been obtained from the three facility providers noted in bullet two of the audit finding; an agreement was requested from the fourth facility but they have not responded.[30]

Reference Number:	**2010-14-5**
Federal Program:	93.069 93.268 93.712
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Special Tests and Provisions – Control, Accountability, and Safeguarding of Vaccine. A sample of Quality Assurance Reviews (QAR) were selected to determine whether Public Health provides oversight of vaccinating providers. Based on a review of QAR samples, it was noted that Public Health's QAR procedures did not include a review of inventory records to ensure vaccines are properly accounted for.
Status of Corrective Action:	Partially corrected. Public Health's Immunization Branch has revised the internal QAR document to include a check of inventory records and to ensure that private vaccine is differentiated from public vaccine. The Centers for Disease Control and Prevention only accepts potential revisions to the Vaccines For Children provider agreement in September so Public Health was unable to submit revisions by December 2010. We will be submitting revisions outlined in our original corrective action plan by September 1, 2011.[31]

Reference Number:	**2010-13-11**
Federal Program:	10.553 10.555
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Subrecipient Monitoring. Nine out of 12 subrecipient contracts with food services management companies lacked documentation within Education's Child Nutrition Information and Payment System (CNIPS) that such contracts had been approved. In addition, Education did not implement appropriate internal controls to ensure the approval of a contract is documented within CNIPS. Furthermore, adequate monitoring procedures were not performed to ensure the documentation existed prior to reimbursements to subrecipients.

Status of Corrective Action:	Partially corrected. The Nutrition Services Division (NSD) is developing a Food Service Management Company (FSMC) registry with prototype contracts and bid documents. Once the FSMC registry is fully developed and implemented, school nutrition program sponsors will only be allowed to contract with the registered and approved FSMCs. In addition, Education is exploring the feasibility of creating a new unit devoted solely to FSMC bid/contract administration, technical assistance, and training.[32]

Reference Number:	**2010-2-5**
Federal Program:	84.365
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Allowable Costs/Cost Principles. Education lacks internal controls to ensure only allowable payroll costs are charged to the program. Fiscal analyst's review and approval of payroll charges is not documented.
Status of Corrective Action:	Fully corrected. To document the review and approval of monthly payroll charges, in February 2011, Education instituted the new "ELCSD Monthly Monitor Report for Labor Distribution" form. This form is completed each month and is: (1) utilized to identify payroll discrepancies, (2) indicate the actions taken to resolve the discrepancies, and (3) document the unit analyst's and administrator's reviews and approvals.

Reference Number:	**2010-3-3**
Federal Program:	84.010 84.365
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Cash Management. Education does not have an adequate process in place for assessing the cash needs of its recipients.
Status of Corrective Action:	Fully corrected. To effectively improve cash management over the Title I and English Language Acquisition Grants,

	Education expanded its Federal Cash Management Data Collection (CMDC) system to include Title I, Part A and Part D, Subpart 2; Title III, Part A LEP; and Title III Immigrant programs. The CMDC was established by Education to minimize the time elapsing between subrecipients' receipt and disbursement of federal program funds.
Reference Number:	**2010-5-7**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Eligibility. Education does not have policies and procedures in place that narrate the procedures performed and the source of data used to complete the calculation of grant awards. We noted an error in the poverty count totaling 2,000 that resulted in Education allocating $57,145 less to one local educational agency than it was entitled.
Status of Corrective Action:	Fully corrected. Education strengthened existing policies and procedures by instituting a formula driven spreadsheet that automatically calculates each local educational agencies' (LEA) Perkins Section 131 grant funding amounts; the spreadsheet will include the appropriate reviewing manager's approval. In addition, Education developed a procedures manual which delineates the steps needed for staff to: (1) find the appropriate source data, (2) populate the spreadsheet with the appropriate data, and (3) calculate the subgrant amounts. To correct the calculation error noted by the auditors, Perkins carryover funds were used to increase the available fiscal year 2010-11 Perkins Section 131 funds, and LEAs' allocations were appropriately recalculated.
Reference Number:	**2010-7-6**
Federal Program:	84.010 84.287 84.365 84.367
State Administering Department:	Department of Education (Education)

Fiscal Year Initially Reported:	2005-06
Audit Finding:	Level of Effort – Maintenance of Effort. Education's current maintenance of effort (MOE) policies and procedures are insufficient to ensure that they are compliant with required federal guidelines. Specifically, Education was using unaudited local educational agency expenditure figures to calculate compliance with the MOE requirements instead of using the final audited expenditures.
Status of Corrective Action:	Partially corrected. Education is working with the U.S. Department of Education's Risk Management Service and Office of Inspector General in exploring feasible and acceptable options for enhancing Education's existing MOE calculation process, including the use of unaudited versus audited data; as part of this cooperative effort, other States' processes will be considered.[33]

Reference Number:	**2010-7-7**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Level of Effort – Maintenance of Effort. Education did not review or approve the maintenance of effort (MOE) calculation.
Status of Corrective Action:	Fully corrected. Education has implemented a process that includes a review of the MOE calculations and a sign-off sheet by a manager to indicate his/her review and approval.

Reference Number:	**2010-7-8**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Level of Effort – Supplement not Supplant. Although Education has policies and procedures for monitoring its compliance with the requirement to use program funds to supplement rather than supplant existing funds for its State activities and operations expenditures, there is no

	documentation that such policies and procedures have been performed.
Status of Corrective Action:	Remains uncorrected/Disagree with finding. Education does not concur with this finding. Education's budgetary processes include built-in controls that are effective in preventing supplanting as documented and evidenced in Education's accounting and budgetary records. Furthermore, in a program determination letter dated September 30, 2010, the U.S. Department of Education's Assistant Secretary for Elementary and Secondary Education did not sustain the auditor's finding (Finding 2006-7-2) stating that, "Because Education has a process to ensure that program grant funds supplement and do not supplant other funding, we consider this finding resolved and required no further action."[34]

Reference Number:	**2010-7-9**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Matching. Education lacks adequate internal control policies and procedures to ensure reported match amounts are supported by accounting records.
Status of Corrective Action:	Fully corrected. To strengthen existing controls over match, Education created a spreadsheet to serve as a template that will ensure consistency and accuracy in reporting match; documentation to support the match amounts will be maintained with the spreadsheet.

Reference Number:	**2010-12-7**
Federal Program:	84.391 84.392
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Reporting. Education requires subrecipients of Recovery Act funding to submit Section 1512 report data using the Education developed web-based Recovery Act Reporting and Data Collection System and to maintain the records supporting the submitted data. We noted that Education

	did not monitor subrecipients' Section 1512 data for accuracy.
Status of Corrective Action:	Fully corrected. To ensure ongoing compliance with both Individual with Disabilities Education Act (IDEA) and Recovery Act requirements, Education implemented a new application process to ensure that Recovery Act IDEA funds for construction, infrastructure projects, and equipment purchases greater than $5,000 are appropriate. In addition, Education's "Special Education Self-Review" software includes a fiscal component that includes a review of personnel time sheets.

Reference Number:	**2010-12-12**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. Education lacks internal controls over the Perkins data collection system used to prepare the Consolidated Annual Performance, Accountability, and Financial Status Report (CAR) submitted by local educational agencies (LEAs). Data reported by LEAs may not be complete, accurate, and reliable.
Status of Corrective Action:	Fully corrected. The controls Education has implemented to enhance the quality of data submitted for the annual CAR are complete and operating as designed. This includes the availability of an electronic upload for data submitted by the LEAs. Once the submission period ends, the data is reviewed and verified by Education for correctness and completeness. If discrepancies are found, the LEA is contacted and required to make the necessary corrections prior to the approval of the current application. LEAs failing to submit data from the prior year and no longer participating in the grant will be contacted to either submit the required data or revert back the granted funds. In addition, the Perkins Program Monitoring system has been implemented. LEAs failing to meet required performance targets are required to complete a self-review, including the review of data submitted for E-1 and E-2 reporting. Education conducts on-site monitoring visits based on suspected inaccuracies in data reporting and provides technical assistance as necessary.

Reference Number:	**2010-13-12**
Federal Program:	84.010 84.011 84.048 84.287 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. Education requires local educational agencies (LEAs) to resolve all deficiencies noted during Categorical Program Monitoring site visits within 225 days. For 28 of 41 site visits tested, the LEAs were significantly late with their resolutions. In addition, Education was not prompt for an additional eight of 16 site visits tested in resolving the corrective actions once it received the resolutions from LEAs.
Status of Corrective Action:	Partially corrected. Education continuously works with LEAs to resolve all deficiencies noted during monitoring visits with the understanding that, in some instances, complete corrective action may require time beyond the standard timeframes. However, to emphasize the importance of timely corrective action, staff are provided resolution training, and LEAs are informed and reminded of the timeframes for resolving items following a monitoring review.[35]

Reference Number:	**2010-13-14**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Subrecipient Monitoring. Education does not monitor the Board of Governors of the California Community Colleges (CCC) use of pass-through federal awards. Education considers CCC a vendor, but the interagency defines a subrecipient relationship, thus requiring Education to monitor the federal awards.
Status of Corrective Action:	Partially corrected. For the fiscal year 2011-12, Education has added a monitoring clause to interagency contracts with the CCC. Education is currently exploring the

	development of formal procedures for monitoring the CCC.[36]
Reference Number:	**2010-13-15**
Federal Program:	84.394
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Subrecipient Monitoring. Education needs to enhance the timeliness and scope of its subrecipient monitoring activities to ensure subrecipients are administering federal awards in compliance with applicable federal compliance requirements.
Status of Corrective Action:	Fully corrected. To ensure subrecipient compliance with federal requirements, Education conducts on-site and on-line State Fiscal Stabilizing Fund (SFSF) monitoring reviews. To maximize SFSF fiscal monitoring coverage with limited resources, Education utilizes a risk-based methodology in consideration of local educational agencies' unresolved prior year Single Audit findings and to capture the largest federal funding allocations.
Reference Number:	**2010-13-16**
Federal Program:	84.357
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Education outsources its monitoring to a contractor, California Technical Assistance Centers (C-TAC). C-TAC's monitoring procedures focus on assisting local educational agencies (LEA) with program implementation and do not contain procedures to ensure LEAs' compliance with federal requirements. In addition, Education has no formal process in place to follow up and resolve issues promptly and to review expenditures reports to ensure program funds are used in accordance with authorized purposes.
Status of Corrective Action:	Fully corrected. The Reading First program ended in fiscal year 2009-10. However, Education will continue to work with the C-TAC and with regional technical

	assistance centers to effectively oversee and improve the monitoring of LEA's and to timely follow up on known outstanding issues.
Reference Number:	**2010-14-6**
Federal Program:	84.391 84.392
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Special Tests and Provisions. Education is not identifying and documenting the federal award number to each of its subrecipients at the time of subaward. In addition, at the time of disbursement of Recovery Act funds, Education is not informing subrecipients of the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds.
Status of Corrective Action:	Fully corrected. Education will identify the appropriate CFDA numbers on all future grant awards. Education identifies and treats Recovery Act funds uniquely from non-Recovery Act funds. As required under the Recovery Act, the Recovery Act grant awards include grant conditions informing grantees that the Recovery Act funds must be tracked separately from non-Recovery Act funds. In order for local educational agencies to track the funds separately, each Recovery Act grant award has a unique: (1) grant award name, (2) Program Cost Account (PCA), and (3) Standardized Account Code Structure (SACS) resource code. Furthermore, LEAs are required to report Recovery Act 1512 data using the unique Recovery Act PCA and SACS resource codes.[37]
Reference Number:	**2010-3-5**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Cash Management. Education is not using the funding technique set forth in the Cash Management Improvement Act (CMIA) Agreement as it relates to payments made to child care providers.

Status of Corrective Action:	Fully corrected. Education's clearing account payment process involves a "Monthly Estimate/Monthly Draw" concept. In this regard, State funding is initially utilized to make child care payments based on estimated or known monthly expenditures posted to the clearing account. If payments are based on estimates, funds drawn are reconciled to actual expenditures. However, actual monthly child care expenditures, not estimates, typically are posted and timely paid through the clearing account with State funds. Consequently, plans of financial adjustments in the following months are, in essence, reimbursements to Education, not child care vendor payments; payments for State funds and reimbursement from federal funds have recently been simultaneous.

Reference Number:	**2010-13-13**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Subrecipient Monitoring. Education requires local educational agencies (LEAs) to resolve all deficiencies noted during Categorical Program Monitoring site visits within 225 days of the exit date. For 28 of the 41 site visits tested, Education received the resolutions after 225 days. In addition, Education was not prompt for an additional eight of 16 site visits tested in resolving the corrective actions once it received the resolutions from LEAs.
Status of Corrective Action:	Partially corrected. Education continuously works with LEAs to resolve all deficiencies noted during monitoring visits with the understanding that, in some instances, complete corrective action may require time beyond the standard timeframes. However, to emphasize the importance of timely corrective action, staff are provided resolution training, and LEAs are informed and reminded of the timeframes for resolving items following a monitoring review.[38]

Reference Number:	**2010-14-7**
Federal Program:	93.713

State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Special Tests and Provisions. Education is not identifying to each of its subrecipients the federal award number at the time of subaward. In addition, at the time of disbursement, Education is not informing subrecipients of the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds.
Status of Corrective Action:	Remains Uncorrected. Education will identify the appropriate CFDA numbers on all future grant awards. Education identifies and treats Recovery Act funds uniquely from non-Recovery Act funds. As required under Recovery Act, the Recovery Act grant awards include grant conditions informing grantees that the Recovery Act funds must be tracked separately from non-Recovery Act funds. In order for local educational agencies (LEAs) to track the funds separately, each Recovery Act grant award has a unique: (1) grant award name, (2) Program Cost Account (PCA), and (3) Standardized Account Code Structure (SACS) resource code. Furthermore, LEAs are required to report Recovery Act 1512 data using the unique Recovery Act PCA and SACS resource codes.[39]

Endnotes – Auditor's Comments

1. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-7-6 for additional information.
2. This finding is fully corrected. Although the Department of Military plans to take additional actions to strengthen its processes, the actions it has taken sufficiently addressed our prior-year finding.
3. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-5-5 for additional information.
4. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-1-3 for additional information.
5. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-7-3 for additional information.
6. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-7-4 for additional information.
7. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-7-7 for additional information.
8. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-12-7 for additional information.
9. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-13-13 for additional information.
10. This finding is fully corrected. Our audit this year did not identify a similar finding.
11. This finding is fully corrected. Our audit this year did not identify a similar finding.
12. Our review found that the department has substantially corrected this finding.
13. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-12-4 for additional information.
14. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-13-15 for additional information
15. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-1-4 for additional information.
16. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-14-6 for additional information.
17. We elected not to report this as a finding because the state and federal government updated the Treasury State Agreement (TSA) for fiscal year 2011–12 to ensure that Caltrans' process complies with the TSA. Although Caltrans did not use the funding technique identified in the TSA applicable for the current fiscal year, it did use the interest neutral technique that is now approved in the TSA for use in fiscal year 2011–12. Additionally, our testing found that Caltrans' use of the incorrect funding technique during fiscal year 2010–12 had no effect on the amount of interest Caltrans calculated as owed to the federal government.
18. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-13-14 for additional information.
19. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-12-6 for additional information.
20. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-1-1 for additional information.
21. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-1-2 for additional information.

22. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-2-1 for additional information.
23. This finding is fully corrected. Our audit this year did not identify a similar finding.
24. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-5-1 for additional information.
25. This finding is fully corrected. Our audit this year did not identify a similar finding.
26. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-5-4 for additional information.
27. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-5-2 for additional information
28. This finding is fully corrected. Our audit this year did not identify a similar finding.
29. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-13-2 for additional information.
30. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-14-3 for additional information.
31. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-14-2 for additional information.
32. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-13-4 for additional information.
33. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-7-1 for additional information.
34. This finding is fully corrected. Our audit this year did not identify a similar finding.
35. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-13-7 for additional information. During our testing, we did not identify this same monitoring exception for the Career & Technical Education (84.048), 21st Century Community Learning Centers (84.287), Migrant Education Grants (84.011), and Improving Teacher Quality (84.367) programs. Therefore, we did not include these programs in the current year finding.
36. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-13-9 for additional information.
37. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-14-7 for additional information
38. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-13-5 for additional information.
39. We reported a similar finding in our audit of fiscal year 2010–11. Please refer to reference number 2011-14-4 for additional information.

We conducted this audit to comply with Section 8543 et seq. of the California Government Code. The Independent Auditor's Reports provide the opinions we expressed on the State of California's internal control and on compliance and other matters.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

Date:	March 30, 2012
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Contractors:	KPMG LLP Macias Gini & O'Connell LLP

(*Agency response provided as text only.*)

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

March 16, 2012

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

Dear Ms. Howle:

Thank you for the opportunity to respond to the internal control and state and federal compliance audit report for the fiscal year ended June 30, 2011. 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, 2011, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations and recognize that the compliance findings resulted in 31 unqualified and 4 qualified opinions for the 35 major programs audited. We also recognize that there are areas where internal controls and administration of federal awards needs to be improved.

California provides its citizens with numerous state and federal programs and activities and is much more complex and vast than most economic entities in the world. Moreover, such operations must exist within a system of internal and administrative control that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the state continues to be an important part of the Department of Finance's (Finance) leadership.

In meeting our responsibility for financial leadership and oversight, Finance provides internal audit related education and training to departments as well as oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing audit memos to departments that establish statewide policy and provide technical advice on various audit related issues. An audit memo concerning the results of the fiscal year 2010-11 Single Audit will be issued to remind all departments of their responsibility for implementing corrective action plans for their single audit findings.

The head of each state department is responsible for establishing and maintaining a system of internal accounting and administrative control within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified for changing conditions.

Moreover, all levels of state management must be involved in assessing and strengthening their systems of internal accounting and administrative controls to minimize fraud, errors, abuse, and waste of government funds. The Financial Integrity and State Manager's Accountability Act (FISMA) requires each agency to conduct an internal review of its controls and report on their results. Finance will continue to provide education and guidance to assist agencies in meeting the FISMA requirements. The state is committed to sound and

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

Finance is committed to ensuring the proper financial operations and business practices of the state, as well as ensuring that internal controls exist for the safeguarding and effective use of assets and resources. We will take the single audit findings into consideration during the performance of audit work in those departments that received a qualified opinion on a major program.

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

Sincerely,

(Signed by: Ana J. Matosantos)

ANA J. MATOSANTOS
Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Little Hoover Commission
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press