Single Audit Report

1997-98

State of California

STATE OF CALIFORNIA GRAY DAVIS, *Governor*

DEPARTMENT OF FINANCE
OFFICE OF THE DIRECTOR
STATE CAPITOL, ROOM 1145
SACRAMENTO, CA 95814-4906

July 19, 1999

Honorable June Gibbs Brown
Inspector General
Department of Health and Human Services
Room 5250, Cohen Building
330 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Ms. Brown:

As the Governor's fiscal representative, I submit to you the Single Audit Report for the State of California, for the fiscal year ended June 30, 1998. The report contains the Independent Auditor's opinions on the state's general purpose financial statements, schedule of federal assistance, and compliance with requirements applicable to major programs. The Independent Auditor identified reportable conditions related to internal control over financial reporting, instances of noncompliance applicable to major federal programs, and reportable conditions involving the internal control over compliance with major federal program requirements. However, the cumulative reportable internal control weaknesses and instances of noncompliance were not considered material and do not adversely affect the state's general purpose financial statements or compliance with major federal program requirements.

California is an entity with numerous programs and activities being carried out for its citizens and is much more complex and vast than most economic entities in the world. Such complexity, along with budget constraints, challenge us to meet the requirements of those programs and activities efficiently and effectively. Moreover, such operations must exist within a process of internal 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 aspect of the Department of Finance's leadership.

The head of each state department is responsible for establishing and maintaining internal controls and complying with laws, regulations, contracts, and grants applicable to major programs at their individual departments. Each state department with reportable internal control weaknesses or instances of noncompliance is responsible for developing and implementing corrective action plans. The Department of Finance will monitor the corrective action plans and continue to provide the leadership to ensure the proper financial operations and business practices of the state.

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

Sincerely,

B. TIMOTHY GAGE
Director

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Building for the 21st Century

Overview of California's Economy in Fiscal Year 1997-98

As 1998 begins, California enjoys a continuing economic expansion, with record levels of employment and the lowest unemployment rate since 1990. Both personal income growth and job growth rates are higher than the rest of the United States, and economic growth has become more broadly based throughout California. Employment growth exceeded 3 percent with over 400,000 new jobs; personal income increased more than 7 percent; and the state's unemployment rate fell to a seven-year low of 5.8 percent. High technology manufacturing and services led the state's strong economic performance.

Business services was by far the leading job-producer among industries, adding close to 70,000 jobs during the year. Fully one-third of that increase was concentrated in the computer software industry, with nearly as many new jobs in the "other business services" category, which includes multi-media and Internet provider firms.

Construction was California's second leading job-producer, adding nearly 50,000 new jobs. For the most part, construction growth was driven by a strong 28 percent increase in nonresidential building activity, especially in commercial office structures and manufacturing facilities. Residential construction, which has struggled throughout this upturn, began to show signs of recovery. Rising incomes and confidence in the economy have propelled housing sales and prices to record levels in many parts of California.

Other encouraging signs for the state's economy:

- Electronics manufacturing and semi-conductor equipment industries created over 30,000 jobs.
- The aerospace recovery, which began in 1996, continued in 1997.
- Public education was a major contributor to job growth, adding over 30,000 workers, many of them to meet the challenge of class size reduction.
- Motion picture production, healthcare, transportation, wholesale trade, and engineering and manufacturing consulting also contributed to the state's significant job growth.
- California exports continued to lead the nation, with shipment of California-made goods to other counties exceeding $109 billion in 1997.

The strong economy helped to generate higher revenues to the State. In fiscal year 1997-98, revenues from personal income tax receipts, the largest single source of revenue to the General Fund, grew by 20 percent and overall tax receipts grew by 11 percent.

The healthy economic climate has also contributed to a major turnaround in the growth of California's welfare population. In 1997, there was a drop of almost 5 percent in the State's public assistance caseloads.

Prudent Fiscal Management

California continues to make the tough fiscal choices necessary to keep state spending in line with revenues. Prudent fiscal management will remain the paradigm for a disciplined and balanced spending plan which ensures that California lives within its means.

Building for the 21st Century

The California economy is driven by innovation, technology, and by a diverse and expanding population. As California moves into the 21st Century, we face the dual problem of preserving the schools, highways, bridges, water systems, and housing of today while also planning and building new facilities for a growing population. California is challenged to maintain its current capital "infrastructure" investment and make new investments, with increased resource allocation and new initiatives in the following key areas:

- **Investment in Education.** The quality of our system of education guarantees an informed citizenry and a growing and vital economy. Keeping pace with student population growth will require substantial new construction, and maintenance and repair of existing schools.

- **Investment in Transportation.** Long-term economic growth is linked to adequate highways, roads, and mass transit systems that maintain California as a center of commerce and industry.

- **Investment in Environmental Quality.** Investing in programs that protect and enhance environmental quality and preserve natural resources yields significant economic and public safety benefits.

Examples of the necessities and benefits of capital investment abound. Whether the issue is providing low-income housing, building prisons, or maintaining the State's public health laboratories, the demand for and benefits of investing in the public's infrastructure are clear.

In addition, California is advancing reforms and investment in the following areas:

- **Workforce Development.** California's continued economic competitiveness and well-being are increasingly dependent on a well-educated and skilled workforce. California proposes initiatives in several areas to improve education, training, and economic growth.

- **Health and Welfare.** Recognizing that many social problems (such as crime, mental illness, child abuse, illiteracy and premature births) drive the state's fiscal process, California will fund programs which are designed for early intervention and prevention.

California's Commitment

California's economy is uniquely positioned for the 21st Century. In fiscal year 1997-98 California continued building on the successes of the past which will ensure that it maintains economic leadership in the coming years.

Part One

State of California:

Financial Report
Year Ended June 30, 1998

December 1998
98001

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Independent Auditors' Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 87 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues, constituting 89 percent and 90 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 93 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities is based solely upon the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues,* requires disclosure of certain matters regarding the year 2000 issue. The State has included such disclosures in Note 27. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State's disclosures with respect to the year 2000

issue made in Note 27. Further, we do not provide assurance that the State is or will be year 2000 ready, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business will be year 2000 ready.

In our opinion, based upon our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the general purpose financial statements as listed in the table of contents present fairly, in all material respects, the financial position of the State of California as of June 30, 1998, and the results of its operations and the cash flows of its proprietary funds and component unit authorities for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The required supplementary information and the combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of California. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report, and accordingly, we express no opinion on them. In accordance with *Government Auditing Standards*, reports on the State's internal control structure and on its compliance with laws and regulations will be issued in our single audit report.

BUREAU OF STATE AUDITS

PHILIP J. JELICICH, CPA
Deputy State Auditor

November 20, 1998

General Purpose
Financial Statements

June 1999
98002

Part Two

State of California:

Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 1998

June 1999
98002

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Department of Finance R-1

SUMMARY

The State continues to experience problems in accounting and administrative practices that affect its internal control systems over financial reporting and compliance with federal requirements. These problems result in noncompliance with some state and federal regulations. Although these weaknesses are not individually significant, they have a cumulative effect on the accuracy of reported financial information and on the efficiency, effectiveness, and propriety of the State's operations.

STATUS OF YEAR 2000 COMPLIANCE

Although the new millennium is rapidly approaching, the State has not yet ensured computer systems that provide critical services at many agencies will recognize the year 2000. Many of the State's computer hardware and software applications identify a year using two digits; for example, 98 represents 1998. On January 1, 2000, these systems may produce nonsensical data or fail to operate because the computers will read 00 as 1900 rather than 2000. State agencies are focusing their efforts on applications that support mission-critical business practices and are making progress toward correcting critical computer systems. However, as of December 31, 1998, some agencies had not completely tested their computer systems, resolved critical issues with their data-exchange partners, corrected or replaced embedded chips that control certain computerized functions, or completed business continuation plans. Five of these agencies administer some of the largest federal programs. These agencies are the Department of Education, Employment Development Department, Department of Health Services, Department of Social Services, and Department of Transportation.

Compliance and Internal Control Issues Applicable to the Financial Statements

Inadequacies in various state departments' compliance with state requirements and in their internal controls resulted in problems that affect financial statement amounts. Specifically, we found the following problems:

- The State did not ensure that the Statewide Real Property Inventory and the State's financial statements incorporated all real property transactions.

- The Department of Transportation did not accurately account for fixed assets for the Equipment Service Fund.

- The State Controller's Office and the Department of Finance (Finance) do not ensure that departments reconcile fund balance differences before issuing reports on the budgetary basis fund balances.

Compliance and Internal Control Issues of General Concern Related to Federal Grant Requirements

We found that weaknesses exist in the State's compliance with federal requirements and in internal controls over cash management. Specifically, Finance issued instructions to agencies regarding transactions under the Cash Management Improvement Act that were inconsistent with prescribed procedures. As a result, in at least one instance, the State's interest liability to the federal government was understated by $17,400.

Compliance and Internal Control Issues Related to Grants Administered by Individual Departments

We found weaknesses in several state departments regarding their compliance with federal requirements and internal controls applicable to the administration of individual federal programs. We noted the following specific conditions under the related federal departments:

U.S. Department of Agriculture
U.S. Department of Education

The State's Department of Education (Education) did not always report to Finance transfers of federal funds. During fiscal year 1997-98, Education excluded 5 transfers totaling $16,200,000 from work sheets submitted in the first 3 quarters of the fiscal year for the Vocational Education—Basic Grants to States and 17 transfers totaling $5,400,000 from work sheets submitted for the Child and Adult Care Food Program. As a result, Finance understated the State's interest liability for transfers related to these programs by $49,000.

U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Health and Human Services

Education lacks adequate procedures to ensure it promptly receives all required A-133 audit reports from nonprofit subrecipients. As of March 1999, Education had not received fiscal year 1996-97 audit reports from 70 of 180 subrecipients in the Food Distribution, Child and Adult Care Food Program, and the Adult Education—State Grant Program. Because of deficiencies in Education's tracking system, we could not determine which subrecipients in its Child Care Mandatory and Matching Funds of the Child Care and Development Fund program were required to submit A-133 audit reports.

U.S. Department of Interior

For 3 of 12 sport fish restoration and wildlife restoration projects it completed during fiscal year 1997-98, the Department of Fish and Game did not have required documentation for in-kind contributions totaling $687,409. In addition, for a fourth project, the department could not support approximately $9,600 it reported as cost-sharing expenditures.

Federal Emergency Management Agency

The State's Office of Emergency Services (Emergency Services) did not always report to Finance transfers of federal funds. During fiscal year 1997-98, Emergency Services failed to report all refunds, totaling approximately $68,200,000, and four drawdowns totaling approximately $2,500,000, for the Public Assistance Grants. As a result, Finance understated the State's interest liability for transfers related to this program by approximately $177,000.

In addition, Emergency Services failed to follow up on the 27 findings it received from the State Controller's Office during fiscal year 1997-98. These findings included $212,000 in questioned costs.

U.S. Department of Education

The State's Department of Education (Education) did not always ensure that it approved only allowable costs and activities. For instance, Education approved all 5 Goals 2000—State and Local Education Systemic Improvement Grants (Goals 2000) applications we reviewed even though they either included disallowed expenditures or did not sufficiently describe how the subrecipient intended to use the funds. Specifically, of the $683,124 awarded to these 5 subrecipients, we identified $74,596 for questionable activities and $202,098 in costs that lacked adequate documentation. Likewise, for 1 of the 40 Adult Education—State Grant Program applications we reviewed, Education approved the community-based organization's application for $69,500 and subsequently increased the award to $325,750 without receiving a complete application to justify the funding.

In addition, Education and the California Community Colleges, Chancellor's Office (Chancellor's Office) did not always adequately limit cash payments to subrecipients. For example, in April 1998, Education advanced approximately $42,000,000—or 80 percent of the $52,000,000 it awarded through 350 grants—to subrecipients of the Goals 2000 program without first determining their cash needs. As of February 1999, Education had received reports from subrecipients of only 5 of these grants indicating that they had spent their advances. Similarly, between October and November 1997, the Chancellor's Office disbursed approximately $990,000, or 75 percent, of its fiscal year 1997-98 Tech-Prep Education awards, totaling $1,320,000, without first determining the cash needs of the subrecipients. As of December 31, 1997, the subrecipients had used from 4 percent to 55 percent of their funds, totaling approximately $316,000.

U.S. Department of Health and Human Services

Because of a computer error, the State's Department of Health Services (Health Services) incorrectly paid certain claims for psychological services between August 1997 and December 1998. As a result, Health Services estimates it may have overpaid providers between $5,200,000 and $6,300,000. Although Health Services has been aware of the error

for some time, it has not yet identified actual overpayments to providers it should recover or the amount that it should refund to the federal government. According to Health Services, it has corrected the error, so no additional provider overpayments should occur.

In addition, Health Services' Investigations Branch (Investigations) does not have an adequate tracking system to ensure it properly refers all potentially fraudulent activities to the State's Department of Justice (Justice). Specifically, Investigations stated that it referred 23 fraud cases to Justice during fiscal year 1997-98 but it cannot confirm this. Additionally, Justice did not find 16 of those cases in its statewide fraud tracking system. As a result, Health Services cannot ensure that potentially fraudulent activity is properly investigated for prosecution or recovery of state and federal medical assistance funds.

Corporation for National and Community Service

The State's California Conservation Corps did not always ensure the service districts and subgrantees properly supported their invoices before it forwarded them for reimbursement under the AmeriCorps program. Specifically, 12 of 38 invoices reviewed were based on estimated costs rather than actual expenditures. These invoices totaled $195,700 for the grant period ending December 31, 1997. Further, it did not verify the invoices included allowable costs that complied with the program requirements. ■

INTRODUCTION

As part of our examination of the general purpose financial statements of the State of California and the State's administration of federal grants for the fiscal year ended June 30, 1998, we evaluated the State's internal controls. This evaluation was necessary for the following three reasons:

- To express an opinion on the State's general purpose financial statements, on compliance with requirements applicable to each major program, and on the Schedule of Federal Assistance.

- To determine compliance with federal grant requirements, laws, and regulations and the effects of noncompliance on the general purpose financial statements.

- To determine compliance with state laws and regulations that affect the general purpose financial statements.

During our audit, we reviewed fiscal controls at various state agencies and selected items from numerous departments for centralized testing of important transaction cycles. For example, we selected and tested a sample of payroll warrants the State processed through its payroll system and a sample of other warrants the State processed through its claims payment system.

We reviewed the compliance of these agencies with state laws and regulations that materially affect the State's financial statements. These laws and regulations help to ensure that the State maintains sufficient control over the budgeting, investing, collecting, and disbursing of state money and accurately reports the results of its financial activities.

Finally, we reviewed the State's compliance with federal regulations for all high-risk federal grants exceeding $42.95 million. We also reviewed 11 grants between $8.59 million and $42.95 million. Of the 378 federal grants the State administers, we reviewed 36. We excluded federal grants administered by the California State University and the University of California because other independent auditors review them.

The specific scope of our audit is stated in the following reports that the federal Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations* (OMB Circular A-133) requires the State to issue each year.

- The report on compliance and internal control over financial reporting based on our audit of the general purpose financial statements (begins on page 13).

- The report on compliance with requirements for each major federal program, and on internal control over compliance in accordance with the federal OMB Circular A-133 (begins on page 17).

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STATUS OF THE STATE'S SOLUTIONS FOR THE YEAR 2000 COMPUTER PROBLEMS

The new millennium is fast approaching, yet the State has not yet ensured that computer systems at many of the 14 agencies that provide critical services will recognize the year 2000. Many of the State's computer hardware and software applications identify a year using two digits, for example, 98 represents 1998. On January 1, 2000, these systems, like many of those worldwide, may produce nonsensical data or fail to operate because the computers will read the date 00 as 1900 rather than 2000. Unless the State identifies, corrects, and tests the computer systems susceptible to this problem by December 31, 1999, the effects on its operations and financial reporting could range from minor errors to catastrophic system failures. The State's failure to address adequately the year-2000 (Y2K) problem could further result in multiple problems for Californians, ranging from malfunctioning traffic lights to erroneous tax notices to interruptions in assistance payments for families with dependent children.

State agencies are focusing their remediation efforts on applications that support mission-critical business practices. The Governor issued an executive order requiring that mission-critical systems be remediated by December 31, 1998; purchases of new systems, hardware, software, and equipment be Y2K compliant; and any new computer projects be limited to those required by law until that department resolves its Y2K problems. Departments are also required to address interfacing of information technology (IT) systems with external IT systems, and to report on contingency planning for problems that might occur if IT systems are not fully remediated by the end of 1999.

In August 1998, we issued our report, entitled *Year 2000 Computer Problem: Progress May Be Overly Optimistic and Certain Implications Have Not Been Addressed*. The report discussed the progress of 39 state agencies that report on completed critical projects to the State's Department of Information Technology, toward remediating the potential Y2K problems in their computer systems. These computer systems are composed of one or more computer projects. We found as of March 31, 1998, none of these agencies had rigorously time-tested their IT systems in an isolated environment which allows the resetting of the computer's internal clock to make sure they will continue to function after the year 2000.

Many of these agencies stated that some of their critical projects affect their ability to claim federal funding or comply with federal requirements. Five of these agencies administer some of the largest federal programs. The following table details how many critical projects at these five agencies affect federal funding.

State Agency	Number of Critical Projects	Critical Projects That Affect Federal Funding
Education	11	1
Employment Development	80	44
Health Services	15	15
Social Services	38	18
Transportation	46	29

In our February 1999 follow-up report, entitled *Year 2000 Computer Problem: The State's Agencies Are Progressing Toward Compliance but Key Steps Remain Incomplete*, we found that state agencies are making progress toward correcting critical computer systems; however, some agencies have not completely tested their computer systems, resolved critical issues with their data-exchange partners, corrected or replaced embedded chips that control certain computerized functions, or completed business continuation plans. The purpose of this audit was to assess the status of systems, which are critical to supporting program services vital to California, at December 31, 1998. However, because these systems may include those used to administer federal programs, the results are pertinent to this report. The following table, excerpted from our February 1999 report, indicates when the five departments that administer some of the largest federal programs plan to complete various remediation efforts for all programs they administer.

State Agency	Software, Hardware[1]	Hardware Clock[2]	Exchange Partners	Embedded Chips	Continuation Plans
Education	Complete	Complete	Complete	6-30-99	Complete
Employment Development	7-30-99	12-21-99	7-30-99	9-30-99	Complete
Health Services	6-30-99	6-30-99	10-15-99	6-30-99	6-30-99
Social Services	1-28-99	6-30-99	6-30-99	6-30-99	6-30-99
Transportation	Complete	n/a	Complete	6-30-99	7-30-99

[1] All application software and hardware has been tested in a production environment and accepted by users.

[2] All supporting systems have been tested in an isolated environment where the hardware clock has been manually set to future dates.

With time running out and no potential for an extension, it is troubling to find that many computer systems are still in need of some remediation before state agencies can ensure the risk of failure is minimal. What is more disturbing is that many of the same agencies that have not fully remediated the computer systems supporting their programs also have not completed business continuation plans to deliver services if their efforts are further delayed or fail to work.

While it is unlikely that the state government can take actions to compensate for all Y2K issues potentially impacting Californians, we believe the situation warrants diligent attention. As a result, the California State Auditor will continue to monitor department progress and will issue periodic reports. ■

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Independent Auditor's Reports on Compliance and Internal Control

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CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
STATE AUDITOR

MARIANNE P. EVASHENK
CHIEF DEPUTY STATE AUDITOR

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

The Governor and the Legislature of
the State of California

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1998, and have issued our report thereon dated November 20, 1998, which was qualified because insufficient audit evidence exists to support the State of California's disclosures with respect to the year 2000 issue. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 87 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues, constituting 89 percent and 90 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 93 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities is based solely upon the reports of the other auditors. Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues,* requires disclosure of certain matters regarding the year 2000 issue. The State has included such disclosures in Note 27. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State's disclosures with respect to the year 2000 issue made in Note 27. Further, we do not

BUREAU OF STATE AUDITS
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provide assurance that the State is or will be year 2000 ready, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business will be year 2000 ready.

COMPLIANCE

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the State of California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of California's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-19-1, 98-19-2, and 98-19-3.

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

This report is intended for the information of the governor and Legislature of the State of California and the management of the executive branch. However, this report is a matter of public record and its distribution is not limited.

BUREAU OF STATE AUDITS

(Signed by:)

PHILIP J. JELICICH, CPA
Deputy State Auditor

Date: November 20, 1998

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CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
STATE AUDITOR

MARIANNE P. EVASHENK
CHIEF DEPUTY STATE AUDITOR

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

The Governor and Legislature of
the State of California

COMPLIANCE

We have audited the compliance of the State of California with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. The State of California's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of California's management. Our responsibility is to express an opinion on the State of California's compliance based on our audit.

The State of California's general purpose financial statements include the operations of the University of California and the California State University systems, which received $2.1 billion and $1.0 billion, respectively, in federal awards which are not included in the schedule of findings and questioned costs or the schedule of federal assistance for the year ended June 30, 1998. Our audit, as described below, did not include the operations of the University of California or the California State University because these entities engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

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

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

In our opinion, the State of California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs. See the attachment for a list of these issues.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

SCHEDULE OF FEDERAL ASSISTANCE

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1998, and have issued our report thereon dated November 20, 1998, which was qualified because insufficient audit evidence exists to support the State of California's disclosures with respect to the year 2000 issue. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 87 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues, constituting 89 percent and 90 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 93 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities, is based solely upon the reports of the other auditors. Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The State has included such disclosures in Note 27 to the general purpose financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State's disclosures with respect to the year 2000 issue made in Note 27. Further, we do not provide assurance that the State is or will be year 2000 ready, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business will be year 2000 ready.

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

This report is intended for the information of the governor and Legislature of the State of California, the management of the executive branch, and the federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

BUREAU OF STATE AUDITS

PHILIP J. JELICICH, CPA
Deputy State Auditor

March 1, 1999 (except as related to
the report on the Schedule of Federal
Assistance, as to which the date is November 20, 1998)

Attachment

ATTACHMENT

The compliance issues are:

98-1-2	98-9-2
98-2-2	98-12-3
98-2-3	98-12-4
98-2-4	98-13-1
98-2-5	98-13-3
98-2-6	98-13-4
98-3-1	98-13-5
98-3-3	98-14-3
98-5-1	98-14-4
98-5-2	98-14-6

The internal control over compliance issues are:

98-3-2	98-12-5
98-3-4	98-12-6
98-7-1	98-13-2
98-9-1	98-14-1
98-9-2	98-14-2
98-12-1	98-14-4
98-12-2	98-14-5

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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, 1998

Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	Yes
Dollar threshold used to distinguish between Type A and Type B programs:	$42.95 million
Auditee qualified as low-risk auditee?	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.550	Food Distribution
10.551/10.561	Food Stamp Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services
14.228	Community Development Block Grants/State's Program
14.239	Home Investment Partnerships Program
15.605 /15.611	Fish and Wildlife Cluster
16.579	Byrne Formula Grant Program
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants
17.250/17.246	JTPA Cluster
20.205	Highway Planning and Construction
20.505	Federal Transit Technical Studies Grants
83.544	Public Assistance Grants
83.548	Hazard Mitigation Grant
84.002	Adult Education—State Grant Program
84.027/84.173	Special Education Cluster
84.032	Federal Family Education Loans
84.034	Public Library Services
84.048	Vocational Education—Basic Grants to States
84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States
84.243	Tech-Prep Education
84.276	Goals 2000—State and Local Education Systemic Improvement Grants
93.045/93.044	Aging Cluster
93.558	Temporary Assistance for Needy Families
93.561	Job Opportunities and Basic Skills Training
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care—Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.778/93.775/93.777	Medicaid Cluster
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
94.006	AmeriCorps

Compliance and Internal Control Issues Applicable to the Financial Statements

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VARIOUS STATE DEPARTMENTS

Reference Number: 98-19-1

CRITERIA

The California Government Code, Section 11011.15, requires the Department of General Services (General Services) to maintain a complete and accurate inventory of all property held by the State. It also requires each agency to furnish General Services with a record of each parcel of real property that it possesses and to update its real property holdings by July 1 each year. Further, the State Administrative Manual, Sections 7463, 7977, and 8660, requires agencies to report to the State Controller's Office (Contoller's Office) using the Statement of Changes in General Fixed Assets all additions and deletions to real property funded by governmental resources.

CONDITION

During fiscal year 1997-98, the State had inadequate procedures to ensure that the General Services' Statewide Real Property Inventory and the State's financial statements incorporate all real property transactions. We have reported similar concerns in previous years. To address this matter, the Department of Finance (Finance) issued Audit Memo 98-01 in November 1997, and a similar Audit Memo in November 1998, requiring agencies to evaluate the risk of an incomplete inventory and, depending on the level of risk assessed, reconcile the amounts reported in the Statewide Real Property Inventory with the agency's Statement of Changes in General Fixed Assets. However, when we reviewed two agencies with significant property holdings, we found that the agencies did not comply with this direction, and problems continue to exist.

Specifically, we found that neither the Department of Parks and Recreation (DPR) nor the California Youth Authority (CYA) evaluated the risk of the above weaknesses occurring for all of its fixed asset categories. Neither did each agency reconcile the amount reported in the Statewide Real Property Inventory categories. Further, we found that for approximately ten years, the CYA has not reported to either General Services or the Controller's Office additions to or deletions of its land, buildings, or improvements. Although the DPR reports land additions to General Services, it has not reported changes in its buildings or improvements to General Services for approximately ten years. Unless agencies report complete and accurate information to the Controller's Office and General Services, the State's financial statements will be misstated and the Statewide Real Property Inventory will be incomplete and inaccurate.

RECOMMENDATION

Because of the need for accurate financial information, Finance should monitor agency risk assessments and reconciliations to ensure that fixed asset transactions have been properly reported to the Controller's Office and General Services.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Finance will establish new procedures in the *Audit Guide for the Evaluation of Internal Control* used by agency internal auditors, requiring review and follow-up of real property controls. Finance will clarify these responsibilities in a subsequent Audit Memo informing agency internal auditors of the required procedures.

DEPARTMENT OF TRANSPORTATION

Reference Number: 98-19-2

CONDITION

The Department of Transportation (department) did not accurately account for fixed assets for the Equipment Service Fund in its financial statements for fiscal year 1997-98, the first year of the fund's existence. Specifically, we found the following:

- In the process of establishing the fund, the department overstated construction and automotive fixed assets by approximately $410 million because it made a duplicate entry to its accounting records. After we brought this matter to its attention, the department adjusted its financial statements to reflect the correct fixed assets balance of $203 million, net of accumulated depreciation, as of June 30, 1998.

- The department's accounting records do not accurately reflect purchase and improvement costs of certain construction and automotive fixed assets. We found that more than 300 items were each recorded at a cost of $1,000 or less even though the average capital cost of comparable items ranged from $4,800 to $16,000.

- For certain fixed assets, the useful life of the assets as recorded in the department's accounting system differed from the standard useful life prescribed in the department's guidelines for recording fixed assets. The useful life is a variable used in the calculation of depreciation, which affects accumulated depreciation of fixed assets and related depreciation expenses. Of the 27 items we reviewed, we found that 7 items had useful lives

recorded in the accounting system that did not agree with the department's prescribed guidelines. For example, the department recorded a 20-month useful life in its accounting records for a snowplow even though its guidelines state that the useful life is 228 months.

- Newly-acquired fixed assets did not always begin incurring depreciation expenses when they were placed in service. In our review of ten newly-acquired construction and automotive fixed assets, we found one item that was in service for six months as of June 1998. However, the department's accounting records indicated that the item had not incurred any accumulated depreciation or depreciation expense during fiscal year 1997-98.

CRITERIA

The California Government Code, sections 13401 and 13403, requires state agencies to maintain an effective system of internal control, which includes accurate record keeping procedures for fixed assets and related expenses.

RECOMMENDATION

The department should ensure that it properly records all fixed assets, particularly construction and automotive equipment, in its accounting records.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The department agrees with the above issues and informed us that it is making adjustments to its fixed-asset system. Specifically, the department reviewed items with unusually low capital costs by comparing these costs to those reported by its equipment service center. For each item with a material difference, the department increased the recorded cost of the item to match the cost reported by the equipment service center. The department also implemented a process to ensure that it correctly capitalizes future fixed-asset costs. In addition, the department has analyzed the assets we identified with useful lives recorded in its system that differed from its prescribed guidelines. Based on its review, the department made changes to its records. The department is also reviewing the useful life of other assets in its fixed-asset system to identify and correct any other possible inconsistencies. Finally, the department identified existing active fixed assets that did not have any depreciation expenses and corrected the amount of depreciation recorded for these items. Also, the department is currently modifying its fixed asset system to begin recording depreciation expense for those items placed in service.

STATE CONTROLLER'S OFFICE
DEPARTMENT OF FINANCE

Reference Number: 98-19-3

CONDITION

The State Controller's Office (Controller's Office) and the Department of Finance (Finance) report independently on the State's budgetary basis financial condition using inconsistent amounts, which results in different fund balances for many of the State's funds. This occurs because neither the Controller's Office nor Finance identifies these differences and ensures that departments reconcile them before reporting on the State's financial condition and budget, respectively. According to information the Controller's Office provided to Finance, fund balance discrepancies exceeded $100,000 for fiscal year 1997-98 in each of 123 separate funds that remained unreconciled as of February 1999. The table below provides a breakdown of these discrepancies.

Schedule of Fund Balance Discrepancies Between the State Controller's Office and the Department of Finance

	Number of Funds	Dollar Range of Differences
	13	More than $25 million
	6	$15 million to $25 million
	7	$5 million to $15 million
	37	$1 million to $5 million
	60	$100,000 to $1 million
Total	**123**	

Financial decision makers receive conflicting information about the State's true financial condition because of the differences in fund balances. For example, because Finance's records are used in the State's budgeting process, the inability to adequately account for the differences may impair the integrity of the State's budget.

The Controller's Office believes that a major factor causing these differences is the lack of communication between agency accounting staff, who submit financial reports to the Controller's Office, and budget staff, who submit budget reports to Finance. In addition, Finance believes that each individual agency, rather than the Controller's Office or Finance, is responsible for reconciling any differences in fund balances. Although we agree that individual agencies bear some responsibility for providing accurate financial information, the Controller's Office and Finance have overall responsibility for reporting on the State's financial condition and budget, respectively.

CRITERIA

The California Government Code, Section 13403, discusses the importance of a satisfactory system of internal accounting and administrative controls to reasonably ensure the accuracy of accounting data. In addition, the State Administrative Manual, Section 7900, discusses the importance of preparing regular reconciliations.

RECOMMENDATION

Because of the need for accurate and consistent financial information, the Controller's Office and Finance should ensure that agencies reconcile fund balance differences before issuing reports of the budgetary basis fund balances. For example, the Controller's Office and Finance could require agencies to certify that budgetary information they submit to Finance agrees with financial information they submit to the Controller's Office.

DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS

We reported this issue in previous years. Finance states that because it prepares the fund condition statement for the General Fund, it reconciles with Controller's Office data to ensure that the fund balance for the past fiscal year is as accurate as possible. Further, Finance states that departments are required to follow the same process for other funds. This requirement was communicated to departments via budget letters, the Controller's Office year-end training, and Finance budget and financial condition training. However, Finance plans to notify departments when the listing of fund balance differences is available on the its Internet site. Additionally, depending on the materiality of the difference or the sensitivity of the fund, Finance may contact the departments for explanations of the differences.

The Controller's Office believes that this issue should be directed to the state agencies that produced the financial reports with the fund balance differences, or to Finance, which is responsible for the State's accounting system. The Controller's Office notes that only the state agencies that prepared the financial reports have the detailed records necessary to reconcile these differences. The Controller's Office also observes that it is fulfilling its role in reconciling and eliminating these differences in several ways. Specifically, the Controller's Office has identified and prepared a list of fund balance differences for Finance, has instructed state agencies to reconcile these amounts, and will be penalizing state agencies by not awarding the certificate of excellence in financial reporting when the fund balances differ.

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Compliance and Internal Control Issues of General Concern Related to Federal Grant Requirements

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CASH MANAGEMENT

U.S. DEPARTMENT OF THE TREASURY

Reference Number:	98-3-4
Federal Catalog Number:	Various
Federal Program Title:	Various
Federal Award Number and Calendar Year Awarded:	Various
State Administering Department:	Department of Finance

CRITERIA

During our review, we determined that the following requirements relate to compliance with the federal default procedures:

The Cash Management Improvement Act Default Procedures (CMIA Default Procedures), Section 7.7.6, imposes an interest liability on federal funds the State draws to cover a warrant that is not cashed from the time the funds are credited to the State until the State returns them or offsets them against future warrants.

The Code of Federal Regulations, Title 31, Section 205.15(a)(2), requires the State to include in its annual report the interest liability for each program subject to the regulations. The CMIA Default Procedures, Sections 7.2.1 and 7.6.1, establish requirements for calculating federal and state interest liabilities, respectively. Further, the CMIA Default Procedures, Sections 7.2.2(c) and 7.6.2(c), provide the methods for calculating these liabilities.

CONDITION

- The Department of Finance (Finance) issued instructions to agencies regarding Cash Management Improvement Act transactions that were inconsistent with the default procedures. Finance instructed agencies to report refunds under $10,000 per transaction, errors, and claim corrections on a separate schedule that does not include the dates or other necessary information for Finance to calculate the State's interest liability to the federal government. When reported in this way, the State is assuming no interest liability for its mistakes; however, the default procedures clearly indicate that the State must pay interest on errors, such as uncashed warrants. As a result of Finance's faulty instructions, state agencies are not reporting all the pertinent information for uncashed warrants. For

example, because of errors at the Department of Community Services and Development (Community Services), warrants totaling $1,500,000 were not sent to vendors. However, based on the instructions provided by Finance, Community Services did not report the transactions in a manner that would have allowed Finance to include these transactions in its calculation of the State's interest liability to the federal government. As a result, Finance underreported the State's interest liability to the federal government by $17,400.

- Finance understated the State's interest liability due to the federal government by $52,452 for another error we identified. For the Rehabilitation Services—Vocational Rehabilitation Grants to States, Finance did not use the correct amount of funds drawn down in its calculation of advanced-funded payroll interest liability.

RECOMMENDATION

Finance should ensure that its instructions to state agencies regarding reporting of Cash Management Improvement Act transactions are consistent with the default procedures or an approved agreement between the U.S. Department of the Treasury (U.S. Treasury) and the State. In addition, the State should correct errors that affect the interest liability reported in the annual report.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Finance agrees with our finding. It is aware that the instructions provided to agencies, specifically interest calculations for funds drawn down but never paid out, were too broad and allowed for different interpretations. Negotiations with the U.S. Treasury have created a more restrictive interpretation of the interest calculation for such funds in the fiscal year 1998-99 Treasury-State Agreement. Finance will provide agencies with new instructions on reporting claim corrections and funds drawn in error.

Finance will continue its ongoing effort to reduce errors by analyzing the information reported by state agencies, providing ongoing consultation and training, and annually reminding agencies of their responsibilities.

IDENTIFYING PROGRAM EXPENDITURES

Reference Number: 98-12-3 All Programs

Category of Finding: Reporting Requirements

CRITERIA

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

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

CONDITION

Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule (beginning on page 127) shows total receipts, rather than expenditures, by program. Expenditure information is necessary to identify Type A programs. To ensure that we identified and audited all high-risk Type A programs, we reviewed accrual basis expenditures, which are identified manually, for all programs that we did not already plan to audit and that had cash receipts within 10 percent of the Type A program threshold. We identified three such programs; however, our review of the expenditures for these programs verified that they did not exceed the Type A program threshold and therefore did not require an audit.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

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

Compliance and Internal Control Issues Related to Grants Administered by Individual Departments

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U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	98-5-2
Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Number and Calendar Year Awarded:	7N1019; 1997
Category of Finding:	Eligibility
State Administering Department:	Department of Education

CRITERIA

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

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

Additionally, in November 1995, the U.S. Department of Agriculture issued *All-Points Bulletin* No. CACFP-96-04, which provides federal policy for the revised application and renewal requirements for institutions participating in the food program. This policy allows Education to establish documentation procedures that will allow it to fulfill its responsibilities and, at the same time, create administrative efficiencies and limit administrative burden. The policy indicates that such procedures might include obtaining the license status of sites directly from licensing agencies or maintaining a current computer checklist of licensed sites in the State. The policy does not require Education to obtain annually a copy of the actual license.

CONDITION

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

However, Education does not conduct annual audits and administrative reviews of all participating institutions. Additionally, the reviews by participating institutions do not provide Education an independent confirmation that sites are licensed. Further, the annual attestations by participating institutions are not reliable and, therefore, do not confirm annually the license status of all sites participating in the food program. For example, the files for 8 of the 40 participants we tested contain attestation documents on licensing status that are out of date or incorrect. The most common deficiency is participating institutions certifying their sites have valid licenses even though the information in the certification documents indicate that the licenses for one or more has expired.

We reported a similar finding in our audit of fiscal year 1996-97. At that time, Education was working with the state licensing agency and has since established a direct electronic link to the licensing agency's data base. However, Education indicated that verifying the licensing status of every site on an individual basis is not administratively feasible. Education is still working with the licensing agency to enhance the electronic link to include access to a license revocation list the agency expects to complete by mid-1999. This would provide Education with information to ensure that only licensed sites participate in the program. Additionally, Education is developing a method to verify the licensing status of sites in 11 counties authorized to issue licenses to sites within their jurisdiction.

RECOMMENDATION

Education should continue to improve its process for ensuring that institutions participating in the food program meet the applicable licensing or approval requirements. Specifically, it should continue to work with the state licensing agency to ensure access to a revocation list. Additionally, Education should make sure it receives the license status of sites under the jurisdiction of the 11 counties.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

As mentioned above, in June 1998, Education and the Department of Social Services (Social Services) established a facility licensing profile system with "read only" rights for Education staff. When Education staff review the application of an institution participating in the food program, the licensing profile system is checked to ensure the applying or renewing institution has a current operating license.

Education has been working with Social Services since 1996 to coordinate the development of license information systems linkage for institutions participating in the food program. Education has just received a sample non-licensed facility report from Social Services that lists the institutions participating in the food program that have lost their license to operate. Social Services will transmit the non-licensed facility report monthly to Education. Education will discontinue services to any non-licensed facility.

Eleven of the counties in California are authorized to license facilities within their individual counties. When these 11 counties issue licenses, they send a copy of the license to Education as verification of license status. Education is requesting that each of the 11 counties periodically submit a non-licensed facility report to Education. Education plans to complete implementation of both non-licensed facility report processes on or before June 30, 1999.

Reference Number:	98-12-4
Federal Catalog Number:	10.550
Federal Program Title:	Food Distribution
Federal Award Number and Year Awarded:	State fiscal year 1997-98
Category of Finding:	Reporting
State Administering Department:	Department of Education

CRITERIA

In our review of the Food Distribution program, we found the following requirements apply to special reporting:

The Code of Federal Regulations, Title 7, Section 250.16(a), requires the State Department of Education (Education) to maintain accurate and complete records on the receipt, inventory, distribution, and use of donated foods. In addition, Section 250.17(a) of the regulations requires Education to submit to the U.S. Department of Agriculture (USDA) monthly inventory reports on donated foods.

CONDITION

To ensure that subrecipients receive the donated foods while they have nutritional value, the USDA requires Education to report, on the FNS-155 form, the commodities it stores in its two warehouses in excess of six months. However, Education's system of internal controls is not sufficient to assure this data is complete, accurate, and adequately supported.

The data Education reported on excess inventory to the USDA during fiscal year 1997-98 was not always the same as the data the warehouses reported to Education. Specifically, Education substantially misstated 1 of the 20 commodities listed in the July 1997 report, 3 of the 37 commodities in its September 1997 report, and 1 of 14 commodities in its June 1998 report. We consider misstated amounts by more than 10 percent and 500 cases to be substantially misstated.

RECOMMENDATION

Education should ensure that it reports complete and accurate information to the USDA, which it can support with warehouse records.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The FNS-155 is required to ensure that Education distributes donated foods to subrecipients while the foods have nutritional value; generally, within six months for most commodities. Education agrees that clerical errors were made on the three FNS-155 reports identified by the auditors. However, Education ensures that all commodities are distributed to subrecipients within six months.

In 1998, USDA changed its reporting procedures to allow states to base excess inventory estimates on "projected usage" instead of "past usage" and to require that the FNS-155 report be submitted only twice a year, on June 30 and December 30, instead of monthly. In the past, even though almost all commodities would have been distributed within a six-month period, the FNS-155 reports would indicate an excess because they were prepared reporting past usage, not projected usage.

For example, in 1996, Education might have received ten truckloads of turkey roasts, allocated the turkey roasts to the schools based on their proportional entitlements, so that the turkey roasts would all be allocated within six months. In 1997, if Education received 20 truckloads of turkey roasts and reported the 1996 usage on the FNS-155, it would appear that Education was storing a one-year supply of turkey roasts, exceeding the six-month demand. Using USDA's 1998 regulatory changes, Education now adjusts the allocation factors for the schools based on projected usage, allocating twice as much to the schools in 1998 to ensure that the 20 truckloads of turkey roasts are distributed while they have nutritional value.

Incorporating the changes made by USDA, Education now prepares the FNS-155 report using projected usage. There are, therefore, only a few items listed on the FNS-155 report, indicating that nearly all donated foods are being distributed within six months, eliminating many clerical errors.

U.S. DEPARTMENT OF AGRICULTURE

U.S. DEPARTMENT OF EDUCATION

Reference Number: 98-3-3

Category of Finding: Cash Management

State Administering Department: Department of Education

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

CRITERIA

We determined that the following requirements relate to compliance with the Cash Management Improvement Act Default Procedures (CMIA Default Procedures):

Sections 7.2.1 and 7.6.1 establish requirements for calculating federal and state interest liabilities, respectively. Additionally, sections 7.2.2 and 7.6.2 provide the methods for calculating these interest liabilities.

CONDITION

To fulfill its responsibilities assigned by CMIA Default Procedures, the Department of Finance (Finance) requires state departments to report quarterly information related to the transfers of federal funds so that it can calculate the interest charges. However, during fiscal year 1997-98, the State Department of Education (Education) omitted 22 transfers of federal funds totaling $21,600,000 from its quarterly reports. Specifically, Education excluded 5 transfers totaling $16,200,000 from work sheets submitted in the first 3 quarters of the fiscal year for the Vocational Education—Basic Grants to States and 17 transfers totaling $5,400,000 from work sheets submitted throughout the fiscal year for the Child and Adult Care Food Program. As a result, Finance understated the State's interest liability for transfers related to these programs by $49,000. The amounts omitted from the Vocational Education—Basic Grants to States work sheets were transfers from Education to the California Community Colleges, Chancellor's Office. According to its federal funds administrator, a glitch in the system caused the omissions, and Education corrected the problem during the fourth quarter of the fiscal year.

The Cash Management Improvement Act requires the calculation of interest due to the federal government when states request and receive federal funds in advance of disbursements to vendors, subrecipients, or program participants. Similarly, when they incur costs for federal programs before receiving federal reimbursements, the Cash Management Improvement Act allows the states to calculate interest due from the federal government. However, when Finance receives incomplete information from departments, the interest it calculates is incorrect.

RECOMMENDATION

Education should make sure it provides Finance complete and accurate information for calculating interest.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education agrees with this finding and has modified its reporting system to include all transfers of federal funds, including those for the Vocational Education—Basic Grants to States and Child and Adult Care Food programs.

U.S. DEPARTMENT OF AGRICULTURE

Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Numbers and Calendar Years Awarded:	7N1019; 1997 7N1020; 1997

U.S. DEPARTMENT OF EDUCATION

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

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

Reference Number: 98-13-4

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Education

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

CRITERIA

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

The U.S. Office of Management and Budget Circular A-133 *Audits of State, Local Government, and Non-Profit Organizations* (OMB Circular A-133), requires nonprofit subrecipients that spend more than $300,000 in federal assistance to submit audit reports to the State within 13 months of the end of their fiscal year.

CONDITION

The State Department of Education (Education) lacks adequate procedures to ensure that it promptly receives all required audit reports from nonprofit subrecipients. For three of the four programs we reviewed, Education identified nonprofit subrecipients that spent more than $300,000 in federal funds annually; however, it did not ensure that these subrecipients submitted audit reports. As of March 1999, Education had not received fiscal year 1996-97 audit reports from 70 of 180 subrecipients. Further, these reports were from 4 to 13 months late and Education had not requested subrecipients to submit them. Because Education's tracking system does not contain adequate information for nonprofit subrecipients of the Child Care Mandatory and Matching Funds of the Child Care and Development Fund, we could not determine which of these subrecipients were required to submit A-133 audit reports or whether they submitted them on time. Without an effective system to make sure nonprofit subrecipients submit audit reports on time, Education lacks the assurance that they comply with federal laws and regulations.

RECOMMENDATION

Education should modify its system to identify all nonprofit subrecipients required to submit annual audit reports. Further, it should develop procedures to ensure subrecipients required to submit audit reports do so in a timely manner.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Office of External Audits has responsibility for the receipt and review of audit reports from nonprofit subrecipients. Education requires all nonprofit subrecipients receiving child development funding in excess of $25,000 to submit an audit report. As mentioned above, OMB Circular A-133 requires nonprofit subrecipients receiving more than $300,000 in federal assistance to submit audit reports to the State within 13 months of their fiscal year-end. Education Code, Section 8448(g), requires subrecipients of state child development funds to annually submit audit reports if they receive $25,000 or more and biennial audit reports if the subrecipient received less than $25,000. For Education's audit purposes, it is not important for the Office of External Audits to know whether the subrecipient received federal or state child development funds, just that the subrecipient must submit an audit report.

The Office of External Audits' staff annually receives a list of child development subrecipients and their contract amounts for the fiscal year. In addition, Education requests annually that each subrecipient complete an Annual Audit Status Certification identifying the amount of federal funds expended in the past year. Finally, the Office of External Audits' staff annually receives a confirmation of the funds provided to each child development subrecipient from Education's School Fiscal Services Division. Using these three pieces of information, Education staff determine the type of audit report required of the subrecipient of child development funds to ensure that all OMB Circular A-133 requirements are met.

Nevertheless, Education is in the process of expanding the capabilities of its audit report tracking system to provide a field to indicate the allocation of federal funds. The additional field will enable Education to determine prior to the audit due date which subrecipients are required to submit A-133 audit reports.

Education staff are notifying all subrecipients who did not submit fiscal year 1996-97 audit reports that their audit reports are overdue, that an audit report must be submitted immediately, and that failure to comply will result in termination of current program funding.

U.S. DEPARTMENT OF AGRICULTURE

Federal Catalog Number:	10.550
Federal Program Title:	Food Distribution
Federal Award Number and Year Awarded:	State fiscal year 1996-97

Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Number and Calendar Year Awarded:	7N1019; 1996

U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84.002
Federal Program Title:	Adult Education—State Grant Program
Federal Award Number and Calendar Year Awarded:	V002A60006; 1996

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Catalog Number:	93.596
Federal Program Title:	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Federal Award Numbers and Calendar Year Awarded:	7G999004, 7G999005; 1996

U.S. DEPARTMENT OF INTERIOR

Reference: 98-7-1

Category of Finding: Matching, Reporting

State Administering Department: Department of Fish and Game

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

CRITERIA

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

The Code of Federal Regulations, Title 50, Section 80.12, states that federal participation is limited to either 75 percent of the eligible costs of approved projects or to the share specified in project agreements. Title 43, Section 12.64(b), of the same code states that third-party, in-kind contributions satisfying a cost-sharing or matching requirement must be supported with verifiable records. The section further requires that donated volunteer services be valued at rates equivalent to wages for similar work and, to the extent feasible, supported by the same methods used to document allocations of regular personnel costs. The U.S Office of Management and Budget Circular A-87 *Cost Principles for State, Local Government and Indian Tribal Governments* (OMB Circular A-87), Attachment B, Section 11.h(1), requires that salaries and wages charged to a federal award must be based on payrolls documented in accordance with the generally accepted practice of the governmental unit that receives the award.

Additionally, the Code of Federal Regulations, Title 43, Section 12.60(b), requires grantees to maintain a financial management system that provides accurate, current, and complete financial reports of grant activities.

CONDITION

The Department of Fish and Game (department), lacked adequate documentation to support the shared costs it reported for sport fish restoration and wildlife restoration projects under the federal grants. To demonstrate it met its cost-sharing requirements, the department reported the costs it incurred as well as in-kind contributions from third parties, including donated volunteer services. However, for 3 of the 12 projects it completed during fiscal year 1997-98, the department did not have the required documentation for in-kind contributions of $1,114, $269,595, and $416,700, respectively. For this last project, the department could not provide verifiable records of the donated volunteer services it reported, yet these services represented all of the department's participation in the project. In addition, for a fourth project, the department could not provide support for approximately $9,600 in expenditures

it reported as cost sharing. According to our calculation, the department spent $1,518,500, but reported $1,528,100. Without adequate support for its cost-sharing requirements, the department cannot be certain its financial participation in projects meets requirements.

RECOMMENDATION

The department should implement procedures to maintain verifiable records of the third-party contributions it uses to meet project cost-sharing requirements. In addition, the department should implement procedures to ensure it meets its cost-sharing requirements for projects assisted by federal grants and that it correctly reports the costs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The department agrees with our findings and is developing procedures to take corrective action. The department will implement a standard records system to record, summarize, and maintain verifiable records of in-kind matching. In addition, the department will revise cost reporting to ensure that it meets cost-sharing requirements for federally-funded projects and that it correctly reports the costs.

U.S. DEPARTMENT OF THE INTERIOR

Federal Catalog Number:	15.605
Federal Program Title:	Sport Fish Restoration
Federal Award Numbers and Calendar Years Awarded:	F-49-AE-10; 1996 F-50-R-9; 1996

Federal Catalog Number:	15.611
Federal Program Title:	Wildlife Restoration
Federal Award Numbers and Calendar Years Awarded:	W-58-HS-25; 1996 W-64-D-14; 1996

U.S. DEPARTMENT OF JUSTICE

Reference Number:	98-2-4
Federal Catalog Number:	16.579
Federal Program Title:	Byrne Formula Grant Program
Federal Award Number and Calendar Year Awarded:	97-DB-MU-0006; 1997
Category of Finding:	Allowable Costs and Cost Principles
State Administering Department:	Office of Criminal Justice Planning

CRITERIA

In our review of the Byrne Formula Grant Program (Byrne grant), we determined the following compliance requirements related to allowable costs or cost principles:

- OMB Circular A-87, Attachment B, Section 11h(4), requires salaries and wages charged to a federal grant for employees working on multiple cost objectives or programs be supported by documentation, such as personal activity reports. Additionally, Section 11h(5) requires that personal activity reports reflect an after-the-fact distribution of the actual activity of each employee, account for the total activity of each employee, and be signed by the employee. Section 11h(3) requires that employees working solely on one project, or their supervisors, periodically certify their charges for salaries. The certifications are to be prepared at least semiannually. Finally, Section 11h(5)(e) states that prior budget estimates or other distribution percentages do not qualify as support for charges to a federal grant.

- OMB Circular A-87, Attachment A, Section C.3.b., states that all activities benefiting from the governmental unit's indirect cost will receive an appropriate allocation of those costs. Additionally, Section F.1. requires that indirect cost pools be equitably distributed to appropriate cost objectives based on relative benefits.

CONDITION

We noted the following instances when the Office of Criminal Justice Planning (Criminal Justice Planning) failed to comply with federal requirements related to allowable costs or cost principles:

- Criminal Justice Planning does not comply with the federal requirements to document or certify salaries and wages it charges to the Byrne grant. Specifically, Criminal Justice Planning allocates personal service costs to activities based on budget estimates rather than on actual time worked. In addition, Criminal Justice Planning does not prepare semiannual certifications for employees working solely on the Byrne grant. Although it is aware of the requirements of OMB Circular A-87 and recently received budgetary authority to hire additional staff, Criminal Justice Planning has been unable to hire staff to develop an adequate employee time-reporting system.

- Criminal Justice Planning did not always appropriately allocate indirect costs to the federal programs. One of its indirect cost pools did not allocate costs in a manner consistent with its cost allocation plan. As a result, Criminal Justice Planning allocated $2,150 more in indirect costs to the Byrne grant than its cost-allocation plan allowed. Moreover, although Criminal Justice Planning developed statistical data as a basis for its cost-allocation plan, it could not support the statistics. As a result, we could not determine if Criminal Justice Planning's cost allocation was reasonable, updated as necessary, or contained any material omissions.

RECOMMENDATION

Criminal Justice Planning should establish an adequate time-reporting system that uses activity reports or certifications to document the total activity of each employee and use these as the basis for allocating personnel costs. In addition, Criminal Justice Planning should ensure that all indirect cost pools consistently allocate costs. Finally, Criminal Justice Planning should maintain sufficient documentation to support the basis for its cost allocation.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Criminal Justice Planning agreed with our findings and will take corrective action. Criminal Justice Planning indicated that it is actively recruiting for an employee to develop an adequate time-reporting system. It also agreed to develop and maintain supporting documentation for its cost-allocation statistics. In addition, Criminal Justice Planning stated it would update its cost pools to be consistent with the current cost-allocation plan.

Reference Number:	98-14-6
Federal Catalog Number:	16.579
Federal Program Title:	Byrne Formula Grant Program
Federal Award Number and Calendar Year Awarded:	97-DB-MU-0006; 1997
Category of Finding:	Special Tests and Provisions
State Administering Department:	Office of Criminal Justice Planning

CRITERIA

In our review of the Byrne Formula Grant Program (Byrne grant), we determined the following compliance requirements relate to the awarding of grants to subrecipients:

The United States Code, Title 42, Section 3754, restricts Byrne grant funding for the same project to no more than four years (48 months) with the exception of multijurisdictional drug task forces, multijurisdictional gang task forces, or victim assistance programs. In a letter dated March 25, 1991, the Bureau of Justice Assistance (Justice Assistance) of the U.S. Department of Justice stated that it will allow a previously funded project to receive funding for more than 48 months if the project undergoes a fundamental change in focus, scope, or approach. For example, the project's goals, objectives, or purpose must change substantially. In addition, on January 12, 1994, Justice Assistance provided the Office of Criminal Justice Planning (Criminal Justice Planning) with instructions for classifying Byrne-funded projects under one of 23 authorized purpose areas. These instructions require Criminal Justice Planning to categorize under purpose area #2 those drug enforcement programs eligible for exclusion from the four-year rule.

CONDITION

Criminal Justice Planning did not comply with the four-year rule when it awarded $1.6 million of its 1997 Byrne grant to four subrecipients. Specifically, Criminal Justice Planning awarded funds beyond the 48 months allowed to two projects that were not multijurisdictional and had not undergone a fundamental change in focus, scope, or approach. Criminal Justice Planning subsequently notified both subrecipients that a fundamental change in focus, scope, or approach was necessary to continue receiving funding for fiscal year 1998-99. The other two projects we reviewed were multijurisdictional but were not categorized under purpose area #2 as required by Justice Assistance's instructions dated January 12, 1994. As a result, these projects did not qualify for funding beyond four

years. Because the four projects were either not exempt from the four-year rule or were not categorized as multijurisdictional, as required during fiscal year 1997-98, Criminal Justice Planning is out of compliance.

RECOMMENDATION

To ensure that it complies with the four-year rule funding limitation of the Byrne grant, Criminal Justice Planning should cease funding projects for longer than 48 months unless those projects have substantially changed or have been properly excluded from the four-year rule.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Criminal Justice Planning agrees with our audit finding. It has recognized the need to implement a new process to ensure that programs are not funded past 48 months unless properly exempt. Criminal Justice Planning stated that it has reviewed the subrecipient grant files and has implemented the following changes:

- It now requires subrecipients whose projects are not multijurisdictional and have been funded beyond 48 months to implement an entirely new project. This change will be effective for fiscal year 1998-99.

- It officially moved those projects that meet the definition of a multijurisdictional task force into purpose area #2.

- It developed an internal management process to monitor compliance with Justice Assistance's requirements.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Reference Number:	98-2-1
Federal Catalog Number:	83.548
Federal Program Title:	Hazard Mitigation Grant
Federal Award Number and Year Awarded:	State fiscal year 1997-98
Category of Finding:	Allowable Costs
State Administering Department:	Office of Emergency Services

CRITERIA

Our review of the Hazard Mitigation Grant program indicated the following limitation related to allowable costs:

The Code of Federal Regulations, Title 44, sections 206.439(b)(1)(2) and 206.439(c)(2), states that no indirect costs of a subgrantee are eligible other than the statutory allowance provided for requesting, obtaining, and administering federal disaster assistance subgrants.

CONDITION

Of the 40 fiscal year 1997-98 payments we tested, the Office of Emergency Services (Emergency Services) paid a request for reimbursement that included $35,351 in indirect costs related to one Hazard Mitigation Grant project. These indirect costs represent less than 0.5 percent of the total payments tested.

RECOMMENDATION

Emergency Services should review all reimbursements paid to the Hazard Mitigation Grant project and disallow all separately claimed indirect costs.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services disagrees with the recommendation. Emergency Services states that it does not have the authority to withhold payments from applicants for costs incurred in accordance with a federally approved project. In this instance, the Federal Emergency Management Agency approved the budget for the project, which included approximately $940,000 in overhead or indirect costs. Thus, Emergency Services states it must reimburse the applicant for those costs.

Reference Number:	98-3-1
Federal Catalog Number:	83.544 (formerly 83.516)
Federal Program Title:	Public Assistance Grants
Federal Award Number and Year Awarded:	State fiscal year 1997-98
Category of Finding:	Cash Management
State Administering Department:	Office of Emergency Services

CRITERIA

We determined that the following requirements relate to compliance with the Cash Management Improvement Act Default Procedures (CMIA Default Procedures): The CMIA Default Procedures, sections 7.2.1, 7.4.1 and 7.6.1, establish requirements for calculating federal and state interest liabilities, respectively; sections 7.2.2(c), 7.4.3 and 7.6.2(c) provide the methods for calculating these interest liabilities.

CONDITION

To fulfill its responsibilities assigned by CMIA Default Procedures, the Department of Finance (Finance) requires state departments to report quarterly information related to the transfers of federal funds so that it can calculate interest charges. However, during fiscal year 1997-98, the Office of Emergency Services (Emergency Services) omitted 14 transfers of federal funds totaling $70,800,000 from the quarterly reports for the Public Assistance Grants. Specifically, Emergency Services did not report any refunds, a total of $68,200,000, and did not report four drawdowns totaling $2,500,000. As a result, Finance understated the State's interest liability for transfers related to its program by $177,000.

We reported a similar finding for fiscal year 1996-97.

RECOMMENDATION

Emergency Services should make sure it provides Finance with complete and accurate information for calculating interest charges, including information on all refunds.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services agrees with this finding and has taken steps to ensure that all refunds and drawdowns are reported to Finance.

Reference Number:	98-12-1
Federal Catalog Number:	83.544 (formerly 83.516)
Federal Program Title:	Public Assistance Grants
Federal Award Number and Year Awarded:	State fiscal year 1997-98
Category of Finding:	Reporting
State Administering Department:	Office of Emergency Services

CRITERIA

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

CONDITION

The Office of Emergency Services (Emergency Services) did not ensure that it obtained all required quarterly progress reports from subrecipients. For the subrecipients we reviewed, Emergency Services failed to obtain 11 of 32 quarterly reports required during fiscal year 1997-98. FEMA uses these reports to monitor projects funded with PAG money. The reports address the status of funded projects and identify changes in project costs, schedules, and scope of work. Without these reports, Emergency Services' and FEMA's ability to monitor the projects is diminished.

RECOMMENDATION

Emergency Services should develop procedures to follow up on subrecipients that do not submit quarterly progress reports and should consider withholding reimbursements from those subgrantees that do not submit their reports on time.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services agrees with our finding and provides the following comments. Until now, FEMA has not provided guidance on what should be included in the quarterly reports. In the absence of such guidance, Emergency Services required subgrantees to submit quarterly reports on the status of each of their federally funded projects. Emergency Services believes this requirement has been too comprehensive and has led to a very low subgrantee compliance rate.

Emergency Services Program Branch and Resources Branch staff are meeting with FEMA to devise a new quarterly report that will be simpler to complete. This includes having Emergency Services provide project information from its records and requiring subgrantees to report changes in the information on an exception basis. As part of this new reporting process, Emergency Services will also consider withholding payments from subgrantees who do not comply with the reporting requirements. Emergency Services plans to have the new system fully working by the first calendar quarter of 2000.

Reference Number:	98-12-2
Federal Catalog Number:	83.544 (formerly 83.516)
Federal Program Title:	Public Assistance Grants
Federal Award Number and Year Awarded:	State fiscal year 1997-98
Category of Finding:	Reporting
State Administering Department:	Office of Emergency Services

CRITERIA

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

CONDITION

The Office of Emergency Services (Emergency Services) did not reconcile receipts and disbursements reported on its federal cash transaction reports to those recorded in its official accounting records. As a result, we cannot determine if the amount of receipts and disbursements reported on quarterly federal cash transaction reports agrees with Emergency Services' accounting records.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

According to its senior accounting officer, Emergency Services was not aware that this reconciliation was required. It plans to develop a method for identifying relevant receipts and disbursements contained in its accounting records and for reconciling these receipts and disbursements to those reported in the federal cash transaction reports.

Reference Number:	98-13-1
Federal Catalog Number:	83.544 (formerly 83.516)
Federal Program Title:	Public Assistance Grants
Federal Award Number and Years Awarded:	State fiscal years 1995-96 and 1996-97
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Office of Emergency Services

CRITERIA

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

For fiscal year 1995-96 audit reports, the OMB Circular A-133, requires subrecipients receiving more than $25,000 in federal assistance to submit audit reports to the State within 13 months of the end of their fiscal year; for fiscal year 1996-97 reports, the funding cut-off level rose to

$300,000, and the date for submission of reports remained unchanged; when subrecipients fail to comply with federal laws and regulations, OMB Circular A-133 also requires the State to make a management decision regarding audit resolution within six months of receipt of the audit report and to proceed with corrective action as rapidly as possible.

CONDITION

The Office of Emergency Services (Emergency Services) did not make management decisions regarding resolution of audit findings within six months of receiving audit reports. During fiscal year 1997-98, the State Controller's Office, which monitors the annual audit reports of cities, counties, and school districts, forwarded 27 findings to Emergency Services for resolution. These findings include $212,000 in questioned costs. However, Emergency Services did not follow up on any of them. Without an effective system to ensure prompt resolution of audit findings, Emergency Services cannot ensure that subrecipients are complying with federal laws and regulations.

We reported a similar finding for fiscal year 1996-97.

RECOMMENDATION

Emergency Services should follow up on all reported audit findings and ensure that it makes management decisions regarding their resolution within six months.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services submitted a fiscal year 1998-99 budget change proposal to provide staff to ensure follow-up and resolution of audit report findings. This proposal was not approved in January 1999. Emergency Services resubmitted the proposal for consideration during the May 1999 budget revision process.

U.S. DEPARTMENT OF EDUCATION

Reference Number:	98-1-2
Federal Catalog Number:	84.002
Federal Program Title:	Adult Education—State Grant Program
Federal Award Number and Calendar Year Awarded:	V002A70006; 1997
Category of Finding:	Activities Allowed or Unallowed
State Administering Department:	Department of Education

CRITERIA

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

The United States Code, Title 20, Section 1201, describes the basic provisions for using the Adult Education funds that include improving the educational opportunities for a specified population of adults by expanding and improving the current system for delivering services and encouraging the establishment of programs. The Code of Federal Regulations, Title 34, Section 461.31, describes how the State is to award funds, including reviewing applications for specific information relating to Adult Education programs and services.

CONDITION

For 2 subrecipients in our sample of 40, the State Department of Education (Education) did not take adequate precautions to ensure subrecipients use the funds for only activities authorized by federal laws and regulations. Specifically, in one instance, Education requested additional information from a community-based organization (CBO) after it determined that the CBO's fiscal year 1997-98 application did not sufficiently describe the program activities, services, and other required components. Even though Education never received the additional information, it awarded the CBO $69,500. Furthermore, when additional funds became available during the fiscal year, Education increased the original grant award to $325,750. As of March 1999, Education was unable to provide a complete application to justify funding the CBO.

In the other instance, Education paid $560 for activities not allowed. Although it discovered its error, Education did not attempt to recover the funds. After we discussed this with Education in February 1999, it billed the school district to recover the funds.

RECOMMENDATION

Education needs to ensure that applications are complete and include only authorized activities before awarding grants. In addition, Education should ensure that it takes the appropriate corrective action when it identifies errors or instances of noncompliance.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The first subrecipient identified in this finding did not sufficiently describe program activities and services for their fiscal year 1997-98 application. Two Education consultants made a visit on August 27, 1997, to this subrecipient to provide the technical assistance needed for the subrecipient to become compliant with federal requirements. Education staff are reviewing adult education records to locate documentation of the visit. Education records indicate that this subrecipient served a larger number of students than originally projected. Education augmented this subrecipient's grant based on the larger number of students served.

The second subrecipient in this finding requested reimbursement of $560 for activities not authorized by federal law and regulations. Education has billed this subrecipient for the $560.

The adult education office has a new manager who reorganized the office, creating a central filing system and requiring documentation of all contact with subrecipients. The new reorganization will ensure that Education has documentation to support all grant awards and that identified problems are immediately resolved.

Reference Number:	98-2-2
Federal Catalog Number:	84.027
Federal Program Title:	Special Education—Grants to States
Federal Award Number and Calendar Year Awarded:	H027A70116; 1997
Category of Finding:	Allowable Costs and Cost Principles
State Administering Department:	Department of Education

CRITERIA

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

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

CONDITION

Education charges costs to the Special Education program that are not specific to the federal grant. Specifically, in fiscal year 1997-98, Education charged the Special Education grant award approximately $715,000 for costs incurred by its Education Finance Division when allocating state funds. When Education uses federal funds to pay the cost of allocating state funds, it does not ensure it complies with federal regulations for allowable costs.

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

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

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education stated that it did not agree with this audit finding; Education believes that it is fully complying with the rules and regulations governing Special Education, including charging the federal grant for the costs of allocating state funds in support of the federal program. Further, Education does not believe that it needs advance approval from the U.S. Department of Education to continue this practice. For these reasons, Education believes that a corrective action plan is unnecessary.

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

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

Reference Number:	98-3-2
Federal Catalog Number:	84.243
Federal Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A70076; 1997
Category of Finding:	Cash Management
State Administering Department:	California Community Colleges, Chancellor's Office

CRITERIA

In our review of the Tech-Prep Education program, we determined that the following compliance requirements relate to awarding grants to subrecipients:

The Code of Federal Regulations, Title 31, Section 205.20, requires the State to limit its cash advances to the minimum amounts needed to fulfill its immediate cash needs, and Title 34, Section 80.20 of the regulations extends this requirement to subawards, requiring the State to limit cash advances to subrecipients.

CONDITION

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

RECOMMENDATION

The Chancellor's Office should modify its procedures to ensure that it complies with federal cash management regulations requiring it to disburse funds only for the immediate cash needs of its subrecipients.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Chancellor's Office agrees with our finding and states it will review its procedures for cash advances and will strengthen them where needed.

Reference Number:	98-5-1
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Number and Calendar Year Awarded:	H126A980005; 1997
Category of Finding:	Eligibility
State Administering Department:	Department of Rehabilitation

CRITERIA

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

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

CONDITION

The Department of Rehabilitation (department) did not always determine applicant eligibility within the required 60 days. For 3 of the 28 case files we reviewed, the department took 80 to 100 days to determine eligibility. Two other files lacked documentation indicating when the department determined eligibility. When the department does not follow the regulations, it cannot ensure clients promptly receive required services.

RECOMMENDATION

The department should ensure that it determines eligibility for program applicants within the required time frame. It should also appropriately document its decisions in its case files.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The department acknowledges it needs to continue its efforts to meet eligibility determination timelines and has taken steps to improve its success in meeting the requirement. During fiscal years 1997-98 and 1998-99, the department took the following steps:

- The department developed and implemented new systems for monitoring case processing and review requirements in fiscal year 1997-98. The assistant deputy directors implemented regional plans and district management teams implemented district plans to review case processing and monitor timeline requirements.

- The department held a two-day training seminar in April 1998 on compliance issues at a statewide meeting of rehabilitation supervisors and district administrators.

- The department developed a 1998 Case Recording Handbook (handbook), which will streamline case-recording requirements and will assist in the prompt processing of eligibility determinations. The handbook emphasizes compliance requirements and timelines consistent with federal regulations.

- The department will train all rehabilitation supervisors on the handbook in June 1999 at a statewide meeting. This training will emphasize the supervisors' responsibility to review case processing for compliance with federal regulations and adherence to timelines.

Reference Number:	98-9-1
Category of Finding:	Suspension and Debarment
State Administering Department:	California Community Colleges, Chancellor's Office

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

CRITERIA

In our review of the Vocational Education—Basic Grants to States (Vocational Education) and Tech-Prep Education (Tech-Prep) programs, we determined that the following compliance requirement related to suspension and debarment:

The Code of Federal Regulations, Title 34, Sections 80.35, requires the California Community Colleges, Chancellor's Office (Chancellor's Office) to ensure that it does not make subawards to any parties at any tier who are debarred, suspended, or otherwise excluded from participation in federal assistance programs.

CONDITION

The Chancellor's Office did not require participants in the Vocational Education and Tech-Prep programs to submit signed suspension and debarment certifications, nor did it have any other procedures in place to make sure it was not providing federal grant awards to suspended or debarred parties. Without adequate controls, the Chancellor's Office runs the risk of allowing suspended or debarred parties to participate in federal programs. We used an alternative procedure to determine that this did not occur during the period we reviewed.

RECOMMENDATION

The Chancellor's Office should implement procedures to ensure that Vocational Education and Tech-Prep participants are not suspended or debarred from participating in federal assistance programs before approving contracts for funding.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Chancellor's Office agrees with the finding and states that they will require all future participants of the Vocational Education and Tech-Prep programs to sign suspension and debarment certifications when they apply for program funds.

U.S. DEPARTMENT OF EDUCATION

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

Federal Catalog Number:	84.243
Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A70076; 1997

Reference Number:	98-13-2
Federal Catalog Number:	84.276
Federal Program Title:	Goals 2000—State and Local Education Systemic Improvement Grants
Federal Award Numbers and Calendar Year Awarded:	S276A60005; 1997 S276A70005; 1997
Category of Finding:	Subrecipient Monitoring, Activities Allowed and Cash Management
State Administering Department:	Department of Education

CRITERIA

In our review of the Goals 2000—State and Local Education Systemic Improvement Grants (Goals 2000) program, we determined that the following compliance requirements govern awarding grants to subrecipients (subgrants):

The OMB Circular A-133, Section 400(d), requires the State to monitor subrecipients to ensure they use federal grant money for authorized purposes only. This section of the circular also requires the State to provide subrecipients certain information on the grants they receive. Further, the United States Code, Title 20, Section 5889(b)(3)(B), identifies allowable activities under the Professional Development subgrants. Additionally, Title 31, Section 205.20, and Title 34, Section 80.20, of the Code of Federal Regulations, require the State to limit cash advances to the minimum amounts needed to fulfill immediate needs for the State and for subrecipients, respectively.

CONDITION

The State Department of Education (Education) did not sufficiently monitor subrecipients to make sure they used federal grant funds only on allowable activities or received advances only in the minimum amounts necessary. Additionally, Education did not provide subrecipients the Catalog of Federal Domestic Assistance number.

Education approved all five Reading and Professional Development applications we reviewed even though they either included disallowed expenditures or did not sufficiently describe how the subrecipient intended to use some of the funds. However, Education asked the subrecipients to revise their budgets to include only costs for authorized activities. Nonetheless, the revised documents still contained costs for questionable activities or lacked sufficient detail. Specifically, of the $683,124 awarded to these five subrecipients, we identified $74,596 for questionable activities and $202,098 in costs that lacked adequate documentation.

Education also did not ensure subrecipients requested the minimum amount necessary to meet their immediate needs before granting them advances. In April 1998, Education advanced approximately $42 million, or 80 percent of the $52 million awarded, to subrecipients without first determining their immediate cash needs. Although Education required subrecipients to submit an expenditure report by August 14, 1998, if they used their advances as of June 30, 1998, those that had not spent their advances could request an 11-month extension. As of February 1999, Education had received reports for only 5 of the more than 350 grants it provided.

After we brought these issues to Education's attention, it developed a preliminary expenditure report for subrecipients to complete detailing the activities justifying their budget expenditures, among other things. Education also reminded its subrecipients to use funds only for allowable purposes.

Finally, Education did not provide its subrecipients the Catalog of Federal Domestic Assistance number.

RECOMMENDATION

To ensure that subrecipients use federal grant money appropriately, Education should improve its procedures for reviewing and approving applications. Further, Education should modify its procedures for advancing funds to comply with cash management laws. Finally, Education should provide subrecipients the Catalog of Federal Domestic Assistance number.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

When Education awarded Goals 2000 funds in fiscal year 1997-98, it took several steps to ensure that federal funds would be used only for allowable activities. Education notified each applicant of the proper use of Goals 2000 funding through the application certification requirement and the grant award letter. The state level legislation, Assembly Bill 1086, under which Goals 2000 funds were distributed as Reading and Professional Development grants, required the local education governing board applying for the grant to certify compliance with seven specific conditions of the law, including some related to the use of funds. Education required this certification from each school district as part of the application process.

The grant award letter provided explicit information regarding the appropriate use of funds and expenditures disallowed under the Goals 2000 Act and Assembly Bill 1086. Applicants were asked to revise their budgets if they contained costs for unallowable expenditures. Education did not release fiscal year 1997-98 funds until the applicant signed and returned the Certification of Acceptance of Grant Conditions attached to the grant award letter and submitted a revised budget, if appropriate.

In addition, Education provided information on the appropriate expenditure of Goals 2000 funds through daily telephone conversations with school districts and training sessions. In December 1998 and January 1999, Education conducted sessions throughout the State of

California to inform school districts of their responsibilities regarding the Reading Professional Development Program. Finally, compliance items and suggested audit procedures for the Reading Instruction Development Program were included in the Standards and Procedures for Audits of California K-12 Local Educational Agencies for fiscal year 1997-98. Therefore, in fiscal year 1997-98, local auditors reviewed the expenditure of Goals 2000 funds at each school district.

To further ensure that Education meets its monitoring responsibilities for Goals 2000, Education's management has made a commitment to assign an additional analyst to the Reading and Mathematics Policy and Leadership Office.

In July 1997, Education received authorization to spend federal 1996 and 1997 Goals 2000 funds for Reading and Professional Development. In fiscal year 1997-98, many school districts planned to continue professional development activities initiated during fiscal year 1996-97. Although grant award letters were not mailed until mid-February 1998 and funds were not distributed to school districts until late March 1998, school districts had been advised that the funds could be used for appropriate professional development activities conducted between July 1, 1997, and June 30, 1998. By March 1998, many school districts had reported that they had already spent their Reading and Professional Development funds. The initial funding to school districts was based on the misconception that school districts had already spent their funds.

Following Education's normal grant procedures, Goals 2000 funds for fiscal year 1998-99 are being distributed on a quarterly basis. School districts are being asked to submit a semiannual program expenditure report. To ensure that funds are being immediately expended, Education staff will review the semiannual program expenditure report prior to releasing their quarter funds. The third-quarter payment will be reduced if the semiannual report indicates that the school district has not expended the Goals 2000 funds already provided to the school district. Education staff will make the fourth quarterly payment only after review and approval of a final program expenditure report.

In addition, to ensure that school districts have expended their fiscal year 1997-98 funds and to obtain more detail about each school district's expenditures, Education developed and requested that school districts complete a preliminary expenditure report. Education is currently receiving the completed preliminary expenditure reports from school districts.

In the past, the Catalog of Federal Domestic Assistance number was provided to school districts and their auditors upon request. In addition to all other required information, the fiscal year 1998-99 grant award letters contain the Catalog of Federal Domestic Assistance number for Goals 2000.

Reference Number:	98-13-3
Category of Finding:	Subrecipient Monitoring
State Administering Department:	California Community Colleges, Chancellor's Office

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

CRITERIA

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

OMB Circular A-133, Section 200(a), requires that community colleges expending $300,000 or more in federal awards annually perform audits in accordance with specified federal provisions described in Section 500 of the circular. Further, Section 400(d) of the circular requires the California Community Colleges, Chancellor's Office (Chancellor's Office) to issue a management decision on audit findings within six months of receiving audit reports and make sure subrecipients take timely corrective action.

CONDITION

The Chancellor's Office did not sufficiently monitor the fiscal year 1996-97 audit reports of the State's 71 community college districts. Because the Chancellor's Office did not follow its procedures for resolving audit findings, it cannot ensure that it will be able to take timely corrective action. Although the Chancellor's Office received the 5 audit reports we reviewed by January 1998, as of September 1998, it had not issued management decisions on 16 audit findings that related to federal programs and 13 internal control findings that could affect federal funds. Findings identified in these five reports included inadequate records of time charged to specific programs for multifunded positions, insufficient procedures for safeguarding assets, inadequate supporting documentation for reimbursements claimed against a federal program, and improper cash management procedures.

We reported a similar finding for the fiscal year 1996-97 audit. At that time, the Chancellor's Office stated that it implemented procedures to ensure resolution of audit findings. Under these procedures, the fiscal accountability unit would review audit reports and send findings to the appropriate program unit at the Chancellor's Office for resolution. The program units would contact the community college districts, obtain corrective action plans, and report back to the fiscal accountability unit.

RECOMMENDATION

The Chancellor's Office should continue implementing its new system to ensure that it takes appropriate corrective action when community college audits identify failure to comply with federal regulations.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Chancellor's Office agrees with the finding and as stated last year, it implemented a process to photocopy audit citings and distribute this information to the various program units for follow-up. Changes in key staff and administrators, staff shortages, and redirection of priorities for other key staff working on these citings have caused delays. However, only a few have now not been addressed. It has received authorization for additional staff and expects the internal structure of the Chancellor's Office to stabilize to the point that it will be able to show more progress during the coming year.

U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A60005; 1996

Federal Catalog Number:	84.243
Federal Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A60076; 1996

Reference Number:	98-13-5
Federal Catalog Number:	84.002
Federal Program Title:	Adult Education—State Grant Program
Federal Award Number and Calendar Year Awarded:	V002A70006; 1997
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education

CRITERIA

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

The Code of Federal Regulations, Title 34, Section 461.46, requires the State Department of Education (Education) to conduct program reviews and evaluations on at least 20 percent of all subrecipients each year so that it evaluates at least 80 percent during the 4-year period of the state plan. These evaluations must consider factors such as the projected goals of the subrecipient; the planning and content of the programs, services, and activities; and the extent to which educationally disadvantaged adults are being served.

CONDITION

Education did not adequately monitor subrecipients of the Adult Education Program. Education's records show that during fiscal year 1997-98, it conducted reviews and evaluations of 18 percent of the subrecipients instead of the required 20 percent. In addition, our review of Education's monitoring files for these subrecipients revealed deficiencies. In one case, Education could not provide evidence that it performed the review. In three other cases, it could not show that the reviews fully complied with the federal requirements. Furthermore, although Education identified deficiencies in four of the five subrecipients' files in April and May 1998, it could not provide evidence that it took corrective action. After we brought this to Education's attention, it billed two subrecipients to recover costs for activities not authorized for the program. However, for the remaining two, Education had not taken corrective action.

RECOMMENDATION

Education should conduct evaluations and reviews of its subrecipients as required and make sure it takes appropriate corrective action on identified deficiencies.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education concurs with this finding. Education staff are currently attempting to reconstruct the compliance review files for fiscal year 1997-98 and are developing a subrecipient data base to record the results of compliance reviews. The data base will be used to record compliance information for fiscal year 1998-99. In addition, for fiscal year 1998-99, Education staff will conduct compliance reviews of 20 percent or more of its Adult Education subrecipients.

With the implementation of the Workforce Investment Act, Education will have access to more subrecipient performance data than in the past. The performance data will enable Education to better evaluate its subrecipients' ability to deliver effective literacy programs. In addition, in developing the new state plan, Education embraced the Workforce Investment Act's stringent guidelines for local providers and will be requiring local providers to fully document and benchmark student achievement.

Reference Number:	98-14-1
Federal Catalog Number:	84.032
Federal Program Number:	Federal Family Education Loans
Federal Award Number and Year Awarded:	State fiscal year 1997-98
Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission

CRITERIA

In our review of the Federal Family Education Loans program (loan program), we determined the following compliance requirements relate to the administration of loan program funds:

The Code of Federal Regulations, Title 34, Section 682.401 (b)(16), allows one or more private nonprofit institutions to administer the program under the supervision of a single state agency. For this purpose, "supervision" includes setting policies and procedures and having full responsibility for the operation of the program.

The Operating Agreement Between Student Aid Commission and Auxiliary Organization, Section XI, requires the auxiliary organization (auxiliary) to maintain adequate records and to submit periodic reports to the California Student Aid Commission (commission) showing the operation and financial status of the auxiliary. The records and reports should cover all activities of the auxiliary.

The California Education Code, sections 69766, 69766.1, and 69768, continuously appropriates money in the State Guaranteed Loan Reserve Fund (Loan Reserve fund) to the commission for carrying out the purposes of the loan program. In addition, the California Government Code, beginning in Section 13400, requires each state agency head to establish and maintain an adequate system of internal accounting and administrative controls designed to prevent errors, irregularities, or fraudulent acts.

CONDITION

In fiscal year 1996-97, we reported that the commission did not have a system to provide adequate oversight of the activities of its auxiliary. Additionally, we noted that the commission had not retained sufficient staff to adequately protect the public funds entrusted to it. These conditions persisted during fiscal year 1997-98; however, the commission has taken a number of steps to improve its oversight of the auxiliary and to ensure the operation of each is adequately separated from the other. Nonetheless, the commission needs to do more. Additionally, recent litigation threatens its continued progress.

In January 1997, the commission entered an operating agreement with its auxiliary to provide various services, including Loan Reserve fund management and reporting, federal financial and accounting reporting, accounting and funds disbursement, financial analysis and forecasting, budgeting, and cash management. Under the terms of the agreement, most of the commission's staff were assigned to work for the auxiliary. As a result, the commission had few staff remaining to oversee the operating agreement.

Since it entered into the agreement, and continuing through fiscal year 1997-98, the only staff reporting to commission management and assigned to oversee the operating agreement were the chief deputy director, the chief of the commission's management services division, and the commission's internal auditor. These staff members also have other duties. Considering the extent of the services provided by the auxiliary, this staffing level is too low to adequately protect the public funds entrusted to the commission.

Although the staffing shortage persists, the commission has implemented a number of changes intended to ensure proper oversight of the auxiliary and to ensure that operation of the commission is separated adequately from operation of the auxiliary, including the following:

- Separated the positions of executive director of the commission and president/chief executive officer of the auxiliary and hired a new executive director.
- Created an oversight committee to develop recommendations to strengthen and improve oversight of the auxiliary and the operating agreement.
- Authorized the budget for a loan program oversight unit to oversee the operating agreement and hired the manager and one of four employees for the unit.
- Authorized funds for additional staff to cover loan activities of administrative, accounting, and audit personnel.
- Installed a new accounting system for the auxiliary that is separate from the State's accounting system.
- Transferred all accounting positions responsible for the maintenance of the Loan Reserve fund back to the commission.

In addition to the changes it has already made, the commission still needs to fill vacant positions and develop an oversight plan.

Despite the improvements the commission has made, recent litigation may jeopardize its continued progress. The auxiliary obtained a restraining order to prevent the commission from reconstituting the auxiliary's governing board. Until this controversy can be settled, it is unlikely the commission will be able to provide the oversight needed.

RECOMMENDATION

The commission should continue its efforts to establish an adequate system of controls over its auxiliary that ensures the auxiliary's compliance with the operating agreement.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The commission states that it continues to work diligently to establish an adequate system of controls over its auxiliary. In addition, it has taken various steps to carry out its responsibilities as guarantor and to enforce the operating agreement. Further, its loan program oversight division is developing an oversight plan and vigorously seeking to fill vacant positions.

Reference Number:	98-14-2
Federal Catalog Number:	84.032
Federal Program Number:	Federal Family Education Loans
Federal Award Number and Year Awarded:	State fiscal year 1997-98
Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission

CRITERIA

Under the Code of Federal Regulations, Title 34, Section 682.409(a)(1), a guarantee agency (agency) must promptly assign to the U.S. Department of Education (USDE) any loan held by the agency on which it has received payment. An agency must assign any loan that meets all of the following criteria as of April 15 of each year: (a) The unpaid principal balance is at least $100, (b) the agency has held the loan for five years, (c) the agency has not received a loan payment in the last year, and (d) a judgment has not been entered on the loan against the borrower. The USDE provided the following additional criteria in a May 27, 1997, letter: (a) The loan has not been assigned to the Federal Office Program or the IRS Tax Refund Offset Program, (b) the loan is not currently involved in bankruptcy proceedings, and (c) the loan has not been discharged (or a determination is pending) in connection with closed school, ability-to-benefit, or false certification.

CONDITION

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

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The commission and the auxiliary concur with this finding and recommendation. They also recognize that assigning loans to USDE is a high priority. As such, the auxiliary assigned a special unit of four full-time and one part-time staff to this task. As a result, within the first three months of the current fiscal year, they forwarded six tapes of eligible loans to USDE.

According to the commission and the auxiliary, they determine which loans to assign to USDE based upon information available in returned Franchise Tax Board (FTB) files. The use of FTB files eliminates research steps staff would have to perform on the pool of defaulted loans. Except for the five-year holding date, the loans submitted to FTB must also meet the USDE's mandated criteria. When the FTB file is used for an assignment tape, staff execute an additional edit to ensure the loans have been in the auxiliary's portfolio for a six-year period. This additional edit insures that the holding date criteria is met.

Use of the FTB file as the subrogation set-up file has the following history. The auxiliary entered into contracts in May 1996 with five external collection agencies, which allowed it to assign collections on defaulted loans to all the agencies for a one-year period. If unsuccessful in its collection efforts, an agency returned the loan after one year and the auxiliary reassigned the account to one of the other collection agencies. The number of assignments was limited to three. The auxiliary then changed the loan to a pending subrogation status after the third placement.

In March 1997, the commission and auxiliary established an interagency agreement with the FTB. This agreement replaced the three-placement agreements previously contracted with the collection agencies to a one-placement assignment with the agencies and a second placement with the FTB. The first assignment of defaulted loans to FTB occurred in June 1997. The auxiliary delivered in excess of 75,000 borrowers owing more than $780 million. The borrowers represented accounts in the pending subrogation status. FTB will have one more opportunity to collect on this large portfolio prior to subrogation to USDE.

In addition, the commission and the auxiliary stated that assigning collections to FTB is now the last step in the collection process before an eligible loan is subrogated to USDE. Uncollectable accounts meet most of USDE's mandated subrogation requirements. The auxiliary then reviews these loans to assure they meet the remaining requirements. They have found this process to be the most efficient way to track and submit the mandated defaulted loans to USDE.

Furthermore, the commission and auxiliary commented that the volume of accounts within the portfolio makes it impractical, if not impossible, to assign all eligible loans to USDE. It is their understanding that USDE could not accept all submissions. When the commission and the auxiliary next subrogate loans prepared using the current process described above, they will request USDE to approve this process as an acceptable alternative to Section 428 (c)(8) of the Higher Education Act and 34 CFR Section 682.409 (as described in the June 22, 1998, letter from USDE).

Reference Number:	98-14-3
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loans
Federal Award Number and Year Awarded:	State fiscal year 1997-98
Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission

CRITERIA

Our review of the Federal Family Education Loans program (loan program) determined the following compliance requirements relate to the administration of loan program funds:

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

Further, the California Code of Regulations, Title 5, Section 30904, requires lenders to report to the commission any loan transaction within 45 days of the date that it occurs or that a lender learns of the transaction.

CONDITION

The information the commission's auxiliary, which administers the loan program, reports to the federal government for computing the reinsurance rate is not always accurate, and thus, the commission may not be receiving the correct amount of funds. We tested 40 loans to determine if the commission's records properly reflect the loans' status and found seven instances in which the records were inaccurate. In all seven instances, the commission reported the loans as being in repayment status. However, five were for borrowers who

had returned to in-school status; one was in forbearance, where the lender had temporarily allowed the borrower to change the repayment terms; and the lender had no record of the remaining loan.

Repayment status is an element that affects the amount of loans in repayment reported to the federal government by the commission. The loans in repayment amount is used to calculate the reinsurance rate that determines the extent to which the federal government will reimburse the commission for defaulted loans. If the commission does not report accurate information, the federal government may not pay the proper amount of funds.

The commission's records did not reflect accurate information because it did not receive the information on the change in loan status from the lender. The commission recognizes that its system does not always reflect accurate information about its loans. As a result, it recently completed a reconciliation project for loans guaranteed before January 1, 1995, to ensure that the date in its system is accurate and matches that of the lender. Even though the commission completed the reconciliation, its system continues to reflect inaccurate loan status information.

RECOMMENDATION

The commission should continue to work with lenders to ensure they promptly report changes in loan status so its reports to the federal government are as accurate as possible. Additionally, the commission should review the status of loans in its system to ensure that its records reflect accurate information.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The commission and auxiliary agree with the differences in loan status noted in the finding and recommendation. They continue to place a high priority on FAPS database accuracy. This accuracy is, however, tempered by the accuracy of the information lenders reported to them. Lenders must report any loan transaction or status change within 45 days of the date that it occurs or that the lender is aware of the transaction; however, the lenders do not always do this. FAPS reflects the most current status reported by the lenders.

Furthermore, the commission and the auxiliary stated that the auxiliary recently completed a reconciliation project with lenders for loans guaranteed prior to January 1, 1995. The purpose of that project was to determine which loans were closed and obtain the current status of all open loans through this period. The first phase of this project was completed on September 30, 1998, and included 2.4 million loan records.

Additionally, they are currently working with lenders on a second phase for all loans guaranteed subsequent to January 1, 1995. This second phase will supplement the lenders' status change reporting by utilizing the lenders' quarterly files used by the auxiliary to report to the

National Student Loan Data System (NSDLS). This mechanism will assist lenders in reporting the most current loan status to FAPS. It will also provide greater integration between NSDLS and FAPS.

The commission and the auxiliary will continue to use up-to-date technology and improved communications with lenders to insure that status differences are brought within acceptable standards.

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

Reference Number: 98-9-2

Category of Finding: Suspension and Debarment

State Administering Department: Department of Education

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

CRITERIA

In our review of federal programs, we determined that the Code of Federal Regulations, Title 45, Section 76.110, and Title 34, Section 80.35, prohibit the State from contracting with any party that is suspended, debarred, or otherwise ineligible to participate in federal assistance programs.

CONDITION

The State Department of Education (Education) did not always require participants of the Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Child Care and Development Fund), Special Education—Grants to States, and Special Education—Preschool Grants programs to submit signed suspension and debarment certifications. Further, Education did not have any other procedures in place to make sure it was not awarding federal money to suspended or debarred parties. Specifically, for the Child Care and Development Fund program, Education did not have certifications for 5 of our sample of 40 subrecipients. For the other two programs, Education did not require any of its subrecipients to submit the certifications. Although we found no evidence that any of the participants in these programs were suspended or debarred from participating in federal programs, without adequate controls, Education runs the risk of having this happen.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education has taken immediate action to ensure that it has suspension and debarment certifications from all federal program subrecipients.

U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84.027
Federal Program Title:	Special Education—Grants to States
Federal Award Number and Calendar Year Awarded:	H027A70116; 1997

Federal Catalog Number:	84.173
Federal Program Title:	Special Education—Preschool Grants
Federal Award Number and Calendar Year Awarded:	H173A70120; 1997

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

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

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	98-2-3
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	MAP 05-9605CA5028; 1997 MAP 05-9705CA5028; 1997 MAP 05-9805CA5028; 1997
Category of Finding:	Allowable Costs and Cost Principles
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Medicaid Cluster—which is composed of the Medical Assistance Program (Medicaid), the State Survey and Certification of Health Care Providers and Suppliers program, and the State Medicaid Fraud Control Units program—determined the following compliance requirements related to allowed activities, allowable costs, and cost principles: *U.S. Office of Management and Budget Circular A-133 Compliance Supplement* (Circular A-133 Compliance Supplement), states that, to be allowable, payments for Medicaid services must be based on claims that are adequately supported by medical records or other evidence indicating that the service was actually provided and consistent with medical diagnosis; OMB Circular A-87 states that, to be allowable under a grant program, costs must be necessary and reasonable for proper and efficient administration of grant programs; the Code of Federal Regulations, Title 42, Section 431.107, requires providers to maintain records that disclose the extent of services provided to Medicaid recipients.

CONDITION

Health care providers do not always maintain documentation to support the services for which they request reimbursement. Using state health care specialists to review 16 of the Medicaid claims we tested, we found that 3 were not supported by medical records or other evidence indicating that the service was actually rendered. These 3 claims totaled $91 and represent 13 percent of the $680 tested. Without adequate documentation, the Department of Health Services (Health Services) cannot ensure that the providers rendered the services for which they were paid.

RECOMMENDATION

Health Services should expand its review of these providers to determine how pervasive the problem is. If warranted, Health Services should impose restrictions on these providers.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with our finding. In addition, it reviewed the providers' paid claims data for the three unsupported claims, and determined that either an expanded audit or sanctions against the providers were not warranted. Consequently, a corrective action plan does not appear indicated.

Reference Number:	98-2-6
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	MAP 05-9605CA5028; 1997 MAP 05-9705CA5028; 1997 MAP 05-9805CA5028; 1997
Category of Finding:	Allowable Costs and Cost Principles
State Administering Department:	Department of Health Services

CRITERIA

Our review of the Medicaid Cluster determined the following compliance requirements related to allowable costs and cost principles: Part 4 of the Circular A-133 Compliance Supplement, requires Medical Assistance Program (Medicaid) costs to be paid at rates allowed by the state plan; the Code of Federal Regulations, Title 42, Section 433.312, requires the State to refund provider overpayments to the federal government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider.

CONDITION

The Department of Health Services (Health Services) did not always ensure that it made correct payments to the providers of Medicaid services and that it refunded the federal share of overpayments to the federal government. Specifically, we found that Health Services' automated Medicaid claims processing system (system) incorrectly paid 1 of the 30 claims we tested. The claim was a crossover claim for psychological services. A crossover claim is eligible for both Medicaid and Medicare; it is reimbursed by Medicare first and then crosses over to Medicaid. The error occurred because Health Services did not have the proper procedure code in its system. As a result, the system used an incorrect price for the procedure for which the claim was submitted. According to Health Services, which was aware of the problem prior to our testing, this system error may have affected all crossover claims for psychological services processed between August 1997 and December 1998. As a result, Health Services estimates that it may have overpaid providers between $5.2 million and $6.3 million. However, Health Services has not yet identified actual overpayments to individual providers that should be collected or the amount that should be refunded to the federal government. Further, in accordance with new federal regulations, Health Services now uses different procedure codes to reimburse crossover claims. Therefore, according to Health Services, it has corrected the previous system error, and no additional provider overpayments should occur.

RECOMMENDATION

Health Services should identify and recover provider overpayments for crossover psychological claims processed during the presence of the system error. Further, Health Services should refund the federal share of any overpayments to the federal government.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services agrees with the finding. According to the chief of the Payments Systems Division, Health Services has expedited the resolution of this problem and it has been given a high priority. Resolution of erroneous payments follows established procedures, which involve identifying the cause and scope of the problem, correcting the problem, testing the corrections, prioritizing the erroneous payment correction (EPC), and implementing the EPC. The Electronic Data Systems Corporation (EDS), a fiscal intermediary that operates the automated payment system according to policies set by the Medi-Cal Policy Division, has identified the cause and scope of this problem, and is currently working on the correction. After the problem is corrected and tested, the EDS will implement the EPC.

Reference Number:	98-12-5
Federal Catalog Number:	93.561
Federal Program Title:	Job Opportunities and Basic Skills Training
Federal Award Number and Calendar Year Awarded:	G9603CAJOBS; 1998
Category of Finding:	Reporting
State Administering Department:	Department of Social Services

CRITERIA

In our review of this program, we determined the following requirements apply to reporting:

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

CONDITION

The Department of Social Services (Social Services) did not reconcile all of its quarterly financial status reports for fiscal year 1997-98 to its accounting records. Specifically, Social Services did not prepare a reconciliation for the Job Opportunities and Basic Skills Training (JOBS) program. As a result, we could not determine if the total grant expenditures shown on its financial status report agreed with its accounting records.

We reported a similar finding for our audits of fiscal years 1993-94 through 1996-97. Although Social Services made significant progress in implementing its reconciliation process and has prepared adequate reconciliations for all major ongoing programs, it still has not completed the reconciliation for its JOBS program.

RECOMMENDATION

Social Services should continue to implement its reconciliation process and ensure that it performs all reconciliations prior to completion of its federal reports.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Social Services agrees with the finding and recommendation and we appreciate the efforts of the Bureau of State Audits in working with it to implement reconciliation procedures for all federal grants that remain open. Notwithstanding the fact that the JOBS program has been discontinued, Social Services has now completed the reconciliation of this program.

Reference Number:	98-14-4
Federal Catalog Number:	93.777
Federal Program Title:	State Survey and Certification of Health Care Providers and Suppliers
Federal Award Numbers and Calendar Years Awarded:	05-9705-CA-5000; 1997 05-9705-CA-5001; 1997 05-9805-CA-5000; 1998 05-9805-CA-5001; 1997
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

CRITERIA

In our review of the Medicaid Cluster, we identified the following compliance requirements for special tests and provisions:

The Code of Federal Regulations, Title 42, Section 447.10, requires that payments for Medicaid claims be made only to authorized providers; Section 455.2 defines a practitioner (provider) as a physician or other individual licensed under state law to practice his or her profession; sections 455.103 through 455.106 require providers to disclose, among other things, information regarding significant beneficial interest in any other entity involved in billing and reimbursement for Medicaid claims.

CONDITION

The Department of Health Services (Health Services) does not have adequate controls to ensure that providers requesting Medicaid payments are licensed in accordance with federal laws. For 2 of the 25 providers we reviewed, Health Services paid claims even though errors existed on its automated provider system. Specifically, Health Services' automated provider

master file showed these providers as "active," but the license numbers given by the providers were incorrect or had changed. Although we subsequently discovered each of these providers was properly licensed, Health Services' controls do not function as intended. Because of this, Health Services cannot assure that it is disbursing Medicaid payments to licensed providers.

In addition, Health Services does not have adequate controls to ensure providers make required disclosures to the State. For 7 of the 25 providers we reviewed, Health Services and one of its fiscal intermediaries did not have the required agreements on file. As a result, we were not able to verify that the providers had made the required disclosures.

RECOMMENDATION

Health Services should ensure, at the time of provider enrollment, that all information is valid and correct. Health Services should also ensure providers inform it of any changes. Further, Health Services should ensure accurate provider information is input into its automated files and ensure information on provider claims for payment agrees with its automated files.

Also, Health Services and its fiscal intermediary should ensure, at the time of enrollment, that providers disclose all information in an agreement as required by sections 455.103 through 455.106. Further, Health Services should ensure that it has the required agreements on file for all providers receiving Medicaid payments.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services agrees with our findings. According to the chief of the Provider Master File Unit, one of the provider's computer media claiming agreements could not be located and is assumed to be missing. However, Health Services has corrected the license numbers for the two providers found to have incorrect license numbers on file. Also, Health Services is working with the Department of Consumer Affairs to update licensing information for all active providers. Health Services will periodically sample the agreements and require the providers to resubmit agreements when it identifies that an agreement is missing.

Reference Number:	98-14-5
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	MAP 05-9605CA5028; 1997 MAP 05-9705CA5028; 1997 MAP 05-9805CA5028; 1997
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

CRITERIA

In our review of the Medicaid Cluster, we identified the following compliance requirements related to special tests and provisions: The Code of Federal Regulations, Title 42, Section 455.13, requires the state Medicaid agency (the Department of Health Services in California) to establish procedures to refer all suspected fraud cases to law enforcement officials; sections 455.15 and 455.21 clarify that the state Medicaid agency must refer these cases to the state Medicaid Fraud Control Unit, operated by the Department of Justice (Justice) in California.

CONDITION

The Department of Health Services (Health Services) does not have adequate controls to ensure all potentially fraudulent activities are properly referred to Justice. Our review of the three main units that refer fraud activity to Justice revealed that one unit, the Investigations Branch (Investigations), did not adequately track the fraud cases it referred. Specifically, Investigations stated that it referred 23 fraud cases to Justice during fiscal year 1997-98, but Justice did not find 16 of those cases in its statewide fraud-tracking system. Additionally, Investigations cannot confirm that it referred the fraud cases to Justice; therefore, it cannot ensure that potentially fraudulent activity is properly investigated for prosecution or recovery of state and federal medical assistance funds. Further, the potentially fraudulent activities could still be ongoing.

RECOMMENDATION

Health Services' Investigations Branch (Investigations) should tighten its controls over provider fraud referrals and ensure the proper handling of all future referrals sent to Justice. Further, Health Services should attempt to determine the status of the missing referrals or resubmit them.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with our finding. Investigations will implement an improved tracking system that will include a confirmation from Justice for all referrals. Staff will be instructed to send all referrals to the Investigations headquarters' office. The referrals will be logged in and transmitted to Justice with a cover letter. Justice will send Investigations a receipt confirmation. Health Services plans to establish a new position to monitor and closely track the referrals. Also, Health Services will prepare a quarterly status report on the referrals.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Reference:	98-2-5
Federal Catalog Number:	94.006
Federal Program Title:	AmeriCorps
Federal Award Numbers and Calendar Years Awarded:	94ASCCA005Y3-C06; 1996 94ASCCA005Y4-C06; 1997
Category of Finding:	Allowable Costs, Subrecipient Monitoring, Reporting
State Administering Department:	California Conservation Corps

CRITERIA

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

The Code of Federal Regulations, Title 45, Section 2541.200, requires the State to maintain a fiscal management system with effective internal controls and accountability for all grant assets. The system must also provide accurate, current, and complete disclosure of the grants' financial activities.

Section 8 of the interagency agreement between the California Commission on Improving Life Through Service (commission) and the California Conservation Corps (CCC) for the Cadre of Corps program states that the CCC must invoice the commission monthly showing the expenditure categories in the budget.

The commission's Fiscal Manual states that the commission will reimburse the CCC only for approved program expenditures. Under no circumstances will the commission reimburse programs for unauthorized or unallowable expenditures, or advance funds.

The Code of Federal Regulations, Title 45, Section 2541.400, states that grantees must monitor grant and subgrant activities to ensure compliance with federal requirements.

CONDITION

The CCC, a state grantee of the commission, administers the Cadre of Corps program, an element of the AmeriCorps program, through agreements with its service districts and AmeriCorps subgrantees. These service districts and subgrantees submit invoices to the department for reimbursement of program and administrative costs. The CCC uses information from the invoices, rather than data from its accounting records, to prepare financial reports of AmeriCorps grant activities.

We found that the CCC did not always ensure the service districts and subgrantees properly supported their invoices before it forwarded them to the commission for reimbursement. For example, 12 of 38 invoices we reviewed, which totaled $195,700 for the grant period ending December 31, 1997, were based on estimated costs rather than actual expenditures. Further, the CCC did not verify the invoices included allowable costs that complied with the program requirements.

The CCC also does not receive timely invoices from service districts and subgrantees, which further prevents it from adequately monitoring their fiscal activities. We reviewed the invoices submitted to the CCC and found that three of the four service districts, and five of the six subgrantees, submitted invoices up to ten months late. As a result, the CCC cannot produce reports on AmeriCorps grant activities that are accurate, complete, and supported by its accounting records.

RECOMMENDATION

The CCC should ensure that service districts and subgrantees submit invoices for actual expenditures before reimbursing them for the AmeriCorps program. Additionally, the CCC should ensure they submit monthly invoices in a timely fashion and abide by the terms and conditions of each AmeriCorps agreement. Further, the CCC should ensure it obtains all the required financial information to completely and accurately report on AmeriCorps grant activities.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The CCC agreed that it should have necessary policies and procedures in place to ensure that the program's requirements are met. The CCC stated that in the second year of the Cadre of Corps program (grant ending on December 31, 1996), it monitored its service districts' and subgrantees' (sites) activities using primarily the monthly invoices received at its central office. Prior to the start of each program year, each site submitted a budget proposal that was based on the planned number of corpsmembers in the program. Using approved budgets, the sites divided their annual budgets into 12 months for ease and simplicity of submitting costs for reimbursement. Beginning in the fourth year (grant ending on December 31, 1998), the CCC required all sites to submit supporting documentation for all costs charged to the Cadre

of Corps program. This change resulted in delayed invoice processing and quarterly financial status reports that did not include information from all sites. Beginning with the fifth year (grant ending on December 31, 1999), the CCC plans the following corrective action:

- Implement new fiscal procedures and continue to monitor the receipt of supporting documentation for all costs charged to the Cadre of Corps program.

- Conduct random visits to each site no less than twice during the program year that will incorporate fiscal reviews for compliance.

The CCC will further review its fiscal procedures in the sixth year (grant ending December 31, 2000) to ensure fiscal integrity, along with timely and accurate documentation. The Cadre of Corps program is now in its fifth year of service. The CCC is committed to refining its fiscal processes in order to achieve compliance with federal and state requirements.

Reference Number:	98-12-6
Federal Catalog Number:	94.006
Federal Program Title:	AmeriCorps
Federal Award Number and Calendar Year Awarded:	CA94ASCCA005; 1996
Category of Finding:	Reporting and Subrecipient Monitoring
State Administering Department:	California Commission on Improving Life Through Service

CRITERIA

In our review of federal programs, we determined that the following were among the compliance requirements related to reporting and subrecepient monitoring:

The Code of Federal Regulations, Title 45, Section 2541.200, requires the State to maintain a financial management system with effective internal control over and accountability for all grant assets. This system should also provide accurate, current, and complete disclosure of the grant's financial activities. Section 2541.410(b)(4) of this same code requires the State to submit a final financial report to the Corporation for National and Community Service

(corporation) within 90 days of the expiration of the grant. Section 2541.400 of the same code requires that grantees of AmeriCorps programs monitor grant- and subgrant-supported activities to ensure compliance with applicable federal requirements.

CONDITION

The California Commission on Improving Life Through Service (commission) does not provide complete and accurate financial reports of AmeriCorps grant activities. We noted that the commission prepared its December 31, 1997, financial report from subgrantee reports without reconciling the data to its program or accounting records. As a result, the commission was unaware the financial report did not include any expenditures for four subgrantees. These expenditures totaled $1,286,000. In addition, the report did not include final quarter expenditures of $216,000 for five other subgrantees because the subgrantees did not submit this information. While the commission notified the corporation of the missing information, it did not file an amended report when it received the data. As of April 1999, the commission also has not filed a final financial report for the grant.

Furthermore, we noted differences between the grant-funded expenditures subgrantees report and the commission's records of grant funds paid to those subgrantees. For 9 of 38 subgrantees, the commission's records showed it had disbursed more grant funds than the subgrantees reported spending. Discrepancies in amounts ranged from $1,720 to $111,930. Because the commission has not investigated the differences, it cannot be certain that the unreported amounts were used for allowable purposes.

RECOMMENDATION

The commission should reconcile the subgrantees' financial reports with its program and accounting records. It should also ensure that all financial reports contain accurate and complete expenditure information. In addition, the commission should monitor the subgrantees' fiscal data to ensure they account for all grant funds they receive.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The commission staff agrees with our finding and has implemented an internal policy of verifying each financial status report submitted by an AmeriCorps program against grant funds paid through the reimbursement process. Commission staff is currently requiring California AmeriCorps programs to submit revised financial status reports for the program years 1994-95, 1995-96, and 1996-97; based on the identified variances, it expects this task to be completed by June 15, 1999.

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Summary of Prior Audit Findings

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SUMMARY OF PRIOR AUDIT FINDINGS

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Aging	97-2-3 Various	Noncompliance With Requirements to Certify or Document Personal Service Costs. While the Department of Aging (DOA) began preparing certifications as of October 1, 1996, for employees who worked solely on one federal program, these certifications did not correspond to the personal service costs actually charged in the accounting system. In addition, the DOA failed to require or correctly use personal activity reports, such as certified time sheets, for employees working on multiple activities. Specifically, the DOA allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked.	The DOA continues to require employees working on multiple programs to provide monthly personnel activity reports. These activity reports provide the basis for the allocations of salaries and wages to various federal programs.
Department of Health Services	97-2-3 Various	Noncompliance With Requirements to Certify or Document Personal Service Costs. Department of Health Services (DHS) did not prepare periodic certifications for employees who worked on a single program or award. In addition, DHS allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked.	Beginning July 1, 1997, DHS implemented the certification system for staff working 100 percent on federal projects and grants. On January 21, 1998, DHS issued an Information Memorandum 98-05 that implemented the time reporting requirements in accordance with the A-87 federal guidelines. DHS has a few programs that will request approval of a substitute system for allocating salaries and wages to federal projects that will be used in place of activity reports. The substitute systems should be ready for federal review by the end of 1999.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Alcohol and Drug Programs	97-2-3 Various	Noncompliance With Requirements to Certify or Document Personal Service Costs. The Department of Alcohol and Drug Programs (DADP) allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked.	Each month a time sheet is prepared and entered for every employee. The DADP had instituted a process to follow-up regarding the receipt of time sheet to ensure that the referenced policy is adhered to.[1]
Office of Criminal Justice Planning	97-2-3 Various	Noncompliance With Requirements to Certify or Document Personal Service Costs. The Office of Criminal Justice Planning (OCJP) allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked.	As part of its corrective action plan, OCJP requested and received with enactment of the 1998-99 Budget Act in August 1998, baseline authority in fiscal year 1998-99 for establishment of additional staff resources to develop, implement, and manage a more effective system of budgetary oversight. However, after two recruitment attempts, the Budget Branch has had difficulty in filling the authorized position. The Budget Branch has initiated an expanded third recruitment to fill the authorized Budget Analyst position. Successful recruitment will enable OCJP to successfully implement its corrective action plan.[2]
California Community Colleges, Chancellor's Office	97-2-3 Various	Noncompliance with Requirements to Certify or Document Personal Service Costs. California Community Colleges, Chancellor's Office (Chancellor's Office) allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked.	The Vocational Education program continues to follow the timesheet process originally initiated in fiscal year 1996-97 for personal services. The timesheets reflecting actual time worked for the fiscal year 1997-98 were keyed into the automated accounting labor subsystem during the year end closing period.[1]

Footnotes begin on page 124.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Education	97-2-3 Various	Noncompliance With Requirements to Certify or Document Personal Service Costs. The Department of Education (CDE) allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked.	Employees in the CDE's Agricultural Education Unit are recording their actual time worked on their monthly employee timesheets by cost objective.[3]
Department of Rehabilitation	97-2-3 Various	Noncompliance with Requirements to Certify or Document Personal Service Costs. The Department of Rehabilitation (DOR) did not use periodic certifications to support personal service costs.	The DOR implemented a monthly certification process in December 1997, for employees working on a single federal award, and has continued to maintain the monthly certification process.
Department of Mental Health	97-2-3 Various	Noncompliance With Requirements to Certify or Document Personal Service Costs. The Department of Mental Health (DMH) allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked.	The DMH is still not fully in compliance with federal requirements. While all supervisors were notified, the response has not been consistent and information on employees that work on multiple projects is not always documented, or is done on a quarterly rather than monthly basis. This is not a problem for employees working on only one project. The new chief of fiscal systems has been assigned the project of developing a time-reporting system that will meet all federal requirements and also allow the information to be collected in CALSTARS so that manual reporting mechanisms will not be necessary.[1]

Footnotes begin on page 124.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Employment Development Department	97-2-3 Various	Noncompliance With Requirements to Certify or Document Personal Service Costs. The Employment Development Department allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked.	The Fiscal Programs Division worked with the Audit and Evaluation Division (A&ED) and the legal office to develop corrective action to ensure correct charging of time. The resolution was that both entities are now charging time to actual activities and hours performed by the employee. The A&ED implemented this change on July 1, 1998, and the legal office implemented this change on October 1, 1998.[1]
Department of Finance	97-3-1 Various	Noncompliance with Federal Regulations or Default Procedures. The interest liability the State calculated and reported to the federal government for fiscal year 1996-97 could not or did not always comply with federal regulations or Cash Management Improvement Act (CMIA) Default Procedures. The Bureau of State Audits (BSA) reported a similar issue during the audit for fiscal year 1995-96. a) The Department of Finance (DOF) understated the State's liability because the DOF did not include in the annual report state interest liability it calculated for federal funds advanced to the State for payroll expenditures. b) The State used clearance patterns in the calculation that did not comply with the CMIA Default Procedures. c) The State's interest liability due to the federal government was understated due to department reporting errors.	Response from the DOF: a) As part of the 1997-98 Annual Report, DOF calculated both state and federal interest liability on payroll funds and included those amounts in the totals. It is still DOF's opinion that the process required to calculate these amounts is extremely staff intensive and should be deleted with no net liability to either the State or the federal government. b) The DOF provided updated clearance patterns to Financial Management Services (FMS) to incorporate into their revised default procedures. This would eliminate the finding on incorrect warrant redemption information. However, as of this date, DOF has not received a revised version of the default procedures that include these new clearance patterns. c) The reporting errors have been included as prior year adjustments in the 1997-98 Annual Report which is due on December 31, 1998. d) The DOF continues its stand regarding the inclusion of direct costs in the Annual Report even though California has no signed Treasury-

Footnotes begin on page 124.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
		d) The State understated its interest liability because the DOF offset the liability by the direct cost of implementing the CMIA, even though the offset is not allowed when the State does not have an agreement with the U.S. Department of Treasury. e) The State may have billed the federal government twice for a portion of the State's direct cost of implementing the CMIA in 1995-96 because the State included its direct costs of implementing CMIA in its 1996-97 Statewide Cost Allocation Plan. f) The State did not remit its interest liability to the federal government for fiscal years 1995-96 and 1996-97 because it offset those liabilities by an estimated federal interest liability for the State Criminal Alien Assistance Program.	State Agreement in place. This issue is still being negotiated with FMS. e) The DOF included an adjustment in the 1997-98 Annual Report for the direct cost overcharges that occurred because individual state agencies included their CMIA direct costs in their indirect cost rate proposals which caused a duplication in claiming those costs. f) The DOF also continues to calculate a federal interest liability for reimbursement funds not received timely for the State Criminal Alien Assistance Program. This interest liability is included in the Annual Report.
Department of Finance	97-3-2 Various	Miscellaneous Federal Cash Management Issues. The State did not always comply with CMIA Default Procedures. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1995-96.	The funding techniques for the Department of Education's six federal programs and the Maternal and Child Health Services Block Grant have been the issue. The Department of Finance (DOF) has included the appropriate techniques in the proposed agreement for these programs, but Financial Management Services (FMS) has not updated their CMIA Default Procedures to match the information. FMS told DOF that they would make the change, but nothing has been received to date.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Finance	97-12-4 All Programs	Identifying Program Expenditures. Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule shows total receipts, rather than expenditures, by program.	The State's accounting system will require substantial modification to meet all federal and state requirements. The Department of Finance will address changes in relation to other priorities and costs.[4]
Department of Aging	97-13-4 Various	Monitoring of Nonprofit Subrecipients. The Department of Aging (DOA) did not receive the audit reports for two of four subrecipients tested that received more than $25,000 in federal assistance for its special programs. Additionally, the Bureau of State Audits was not able to determine whether the two audit reports it did receive were obtained within the required time frame because the DOA does not document when it receives the reports.	The DOA continues to log the receipt of all audits of nonprofit subrecipients. This log is reviewed by the audit manager to assure audits are received in a timely manner.
Office of Emergency Services	97-13-4 Various	Monitoring of Nonprofit Subrecipients. The Office of Emergency Services (OES) did not have a system in place to identify nonprofit subrecipients receiving more than $25,000 in federal assistance for the Disaster Assistance program. Further, OES did not review the audit reports it received for compliance with the federal requirements.	OES has submitted a 1998-99 Budget Change Proposal (BCP) in order to eliminate this weakness. If the BCP is approved, OES will have adequate staff to ensure the timely receipt and review of subrecipient single audit reports.[5]

Footnotes begin on page 124.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Health Services	97-13-4 Various	Monitoring of Nonprofit Subrecipients. The Department of Health Services (DHS) did not have a system in place to monitor nonprofit subrecipients receiving more than $25,000 in federal assistance for compliance with federal requirements for the HIV Care Formula Grants.	The DHS has developed a process, which meets federal audit requirements. On April 22, 1997, DHS issued Management Memorandum 97-08 to all fiscal agents listing prescribed steps for compliance with the annual audit requirements. In addition, the Office of AIDS has recently hired a full-time auditor that is training and assisting staff in the review and follow-up of all audit findings. Specific attention has been given to the modification of existing audit procedures, timely submission of audits, responses to audit findings, and other areas of concern.
Department of Education	97-13-4 Various	Monitoring of Nonprofit Subrecipients. The State did not receive all audit reports from emergency feeding organizations receiving more than $25,000 in federal funds, including commodities, for one of the federal programs receiving commodities under the Food Distribution program. The Department of Education (CDE) is no longer responsible for monitoring these emergency feeding organizations, since October 1996, and the responsibility was reassigned to the Department of Social Services (DSS). However, neither department ensured that these organizations submitted the required audit reports.	The CDE provided addresses for the organizations for which DSS had no address. On July 30, 1998, DSS requested an audit report for fiscal year 1995-96 from all emergency feeding organizations.[6]
Department of Social Services	97-13-4 Various	Monitoring of Nonprofit Subrecipients. The State did not receive all audit reports from organizations receiving more than $25,000 in federal funds. The Department of Social Services (DSS) was assigned the responsibility to monitor the emergency feeding organizations in October 1996.	DSS requested and received addresses for all emergency feeding organizations (EFO) participating in the program during fiscal year 1995-96 from the CDE. DSS received and reviewed single audit reports from 134 EFO's and determined that no compliance findings were reported which required DSS follow-up.[6]

Footnotes begin on page 124.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
California Community Colleges, Chancellor's Office	97-13-5 Various	Monitoring of Community College Districts. The Chancellor's Office did not sufficiently monitor the fiscal year 1995-96 audit reports of the State's 71 community college districts. Review of audit reports of 5 community college districts disclosed that the Chancellor's Office did not ensure that the districts resolved audit findings within six months after it received the audit reports. The Bureau of State Audits reported a similar finding for audit of fiscal year 1995-96.	The procedures were implemented and satisfactory resolution of most citings was accomplished. However, a few citings are still unresolved due to the departure of the vice chancellor and dean in one of the program areas and the short-term medical leave of a key staff member in the accountability unit.[7]
State Controller's Office	97-13-6 Various	Monitoring of City, County, and Special District Subrecipients. The State did not always monitor sufficiently the audit reports of its local government subrecipients. As a result, the State Controller's Office (SCO) could not determine which subrecipients were required to submit audit reports for fiscal year 1995-96. The SCO did not update its tracking system to identify additional special districts and incorporated subrecipients that the federal government require to submit audit reports for fiscal year 1995-96, nor did the SCO remove subrecipients that were not required to submit audit reports.	In June 1998, SCO updated the tracking system by purging the name of districts that did not receive any federal pass-through funds, or have been exempt from the Single Audit requirement in the last three fiscal years. In addition, through a report generated by the SCO's Division of Accounting and Reporting, SCO updated the database to include only the districts that have received federal funds in excess of $300,000 or have filed a Single Audit report. This tracking system will be updated annually. SCO also established procedures that the Division of Accounting and Reporting notify SCO of formation of new cities and dissolution of existing cities so that they can update the database accordingly. The newly formed cities are then notified of the reporting requirements. As a result of the system updates, the listing of subrecipients that was shown as delinquent declined drastically, from 130 for fiscal year 1995-96 to 34 for fiscal year 1996-97. As of December 31, 1998, 15 of the 34 delinquent subrecipients have filed the required reports. SCO is in the process of making follow-up inquiries on the status of the remaining 19 subrecipients.

Footnotes begin on page 124.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Education	97-5-1 10.558	Eligibility. The Department of Education (CDE) needs to improve its process for ensuring that institutions participating in the food program meet applicable licensing or approval requirements. The CDE could not demonstrate that it confirmed annually the license status of participating institutions for the food program.	In June 1998, the CDE staff received training and started to use Department of Social Services' database to verify the licensing status of facilities participating in the child and adult care food program. By Spring 1999, the state licensing agency plans to provide monthly to the CDE a list of the institutions and facilities whose licenses have been revoked.[8]
Department of Housing and Community Development	97-12-1 14.228 14.239	Reporting Requirements. The Department of Housing and Community Development's (HCD) system of internal administrative controls is not sufficient to assure that the statistical and fiscal information reported to the federal Department of Housing and Urban Development for the Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) is complete and supported by accurate statistical data. In addition, the HCD did not comply with all of the reporting requirements. The Bureau of State Audits reported a similar issue during the audit for fiscal years 1994-95 and 1995-96.	These weaknesses pertain to the HOME and CDBG programs within the department. The corrective actions taken by the HOME program include: • Including HOME reporting requirements in the Grant Management Manual. • Sending a reminder letter to HOME state recipients and Community Housing and Development Organizations (CHDOs) 90 days prior to the end of the annual reporting period, advising them of the data reporting requirement and providing the appropriate reporting form. The required report will be due to the HOME program no later than 30 days after the end of the annual reporting period. • Maintaining a database of all state recipients and CHDOs with reporting responsibility for the annual reporting period. This database will be used to keep track of who has and who has not filed required reports. • State recipients and CHDOs which have not filed the required report by the 30-day deadline will be sent a reminder letter. To the extent permitted by program regulations, those that fail to submit reports in a timely manner will receive negative performance scores.

Footnotes begin on page 124.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
			• Where possible, data provided by state recipients and CHDOs will be reviewed and reconciled to program records. Data such as amounts committed to individual state recipients/CHDOs, expenditure, and balance information will be reconciled to program records. The corrective action taken by the CDBG program include: • A tape was run on each column of the spreadsheet to ensure the accuracy of current year's annual report. • The HCD considers timeliness of reports under the prior performance criteria for awarding the general allocation. • The program is currently working to generate letters on an "automatic" basis to grantees when reports are late.[9]
Department of Housing and Community Development	97-13-1 14.239	Subrecipient Monitoring. The Department of Housing and Community Development neither developed written policies and procedures nor performed any monitoring to fulfill the program's long-term, on-site monitoring requirements.	The HOME program established new procedures on September 30, 1998, to comply with long-term monitoring requirements. Procedures have been established for both state recipients and CHDOs. These include Operating Budget and Annual Report forms, a Regulatory Agreement Compliance Letter, updated and revised long-term monitoring checklist, and a long-term monitoring schedule for the remainder of fiscal year 1998-99. HOME has centralized long-term monitoring activities and staff have been assigned to exclusively work on meeting the program's long-term monitoring requirements.[10]

Footnotes begin on page 124.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Housing and Community Development	97-13-2 14.228	Subrecipient Monitoring. The Department of Housing and Community Development (HCD) needs to further improve its monitoring activities of Community Development Block Grant (CDBG) subrecipients to ensure compliance with program requirements. The Bureau of State Audits reported a similar finding on audits for fiscal years 1994-95 and 1995-96.	The CDBG monitoring schedule has been kept current by a management services technician. Back-up training has been completed. The program is in the process of converting to a new database system. Over the next few months, the program will enter data into the system, which will generate similar monitoring reports. All CDBG General program 1995 visits have occurred and all but two letters have been sent. The HCD is currently monitoring 1996 contracts. The program has adopted quarterly reports to ensure timely visit, letters and close-outs for the program as a whole.
State Board of Control	97-1-2 16.576	Activities Allowed. The State Board of Control (BOC) needs to improve its claims processing. For 2 of the 15 claims for compensation Bureau of State Audits (BSA) reviewed, BSA found that the BOC did not approve or deny the claims within the required 180 days. Further, the BOC did not advise the claimants and their representatives, in writing, of the reasons for the delays.	In response, Victims of Crime Program (VOCP) management issued Program Memo 98-05 to all VOCP staff. Like the earlier Program Memo 92-06, Program Memo 98-05 directs staff to approve or deny applications accepted in accordance with Government Code Section 13962(a) within an average of 90 days, and approve or deny any individual claim within 180 days. The program memo provides detailed instructions to staff for handling claims that are approaching the 180-day mark. Further, the memo reiterates the need to provide written notice to the claimant in those instances in which an issue cannot be resolved, i.e., the eligibility determination not be made, before the 180-day mark. VOCP managers and supervisors were instructed to discuss Program Memo 98-05 with their staff at the weekly staff meeting immediately following the issuance of the memo. In addition to reissuing the VOCP guidelines, the BOC has implemented a program to report "processing times" to executive and VOCP management. These reports are discussed at monthly meetings with executive management and VOCP team managers, supervisors, and other pertinent staff.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Office of Criminal Justice Planning	97-7-4 16.579	Earmarking. The Office of Criminal Justice Planning (OCJP) did not meet the requirement to allocate and spend at least 5 percent of its Byrne grant awards for improving the State's criminal justice records in 1994 and 1995. Specifically, OCJP allocated and spent only 3.1 percent for the required purpose in 1994 and spent only 4.8 percent for that purpose in 1995.	Currently, 5 percent of the annual Byrne funds are allocated to the Bureau of Criminal Information and Identification to improve criminal justice records. To ensure that these funds are properly tracked and expended, this project was removed from more than 70 projects that have a Drug Control (DC) designation and given its own specific Criminal Information (CI) designation. In addition to the specific CI designation that will allow OCJP to more easily track and monitor the expenditures of the project, OCJP has also switched the grant award process to an augmentation/extension process which allows the grantee the flexibility of a longer period of time to expend the entire grant award. If the grantee is unable to expend the funds in a timely manner, OCJP will request an extension from Bureau of Justice Assistance in order to fully expend the funds.
Office of Criminal Justice Planning	97-7-5 16.575	Earmarking. The Office of Criminal Justice Planning's procedures for allocating grant funds for programs assisting underserved victims are not in accordance with the Crime Victim Assistance Grant's guidelines.	This error was discovered during the preparation of the fiscal year 1998 application in December 1997. Hence, not only was the fiscal year 1998 and subsequent fiscal year 1999 application calculated correctly, but at the time that Bureau of State Audits made this finding, OCJP already had a policy memo out regarding the error, and the plan to shift funds from other programs was previously approved. The shift in funds occurred on June 16, 1998, using end of year balances from other Victims of Crime Acts funded projects.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Office of Criminal Justice Planning	97-8-2 16.579	Period of Availability of Funds. The Office of Criminal Justice Planning (OCJP) did not comply with the federal period of availability requirements for the 1994 and 1995 Byrne grants.	OCJP has asked for a formal extension of these grants so that the costs may be claimed. A formal extension from the Bureau of Justice Assistance (BJA), has not been received. Upon receipt of a formal extension from BJA, OCJP will revise the quarterly Financial Status Reports.[11]
Office of Criminal Justice Planning	97-12-2 16.579	Financial Reporting. In its financial status reports of Byrne grants for years 1994, 1995, and 1996, the Office of Criminal Justice Planning (OCJP) incorrectly reported expenditures and made some omissions.	Upon receipt of a formal extension from the BJA, OCJP will revise the quarterly Financial Status Reports.[11]
Office of Criminal Justice Planning	97-14-7 16.579	Special Tests and Provisions. The Office of Criminal Justice Planning (OCJP) did not comply with the 48-month rule of the Byrne grant, which restricts Byrne funding for the same projects to no more than four years. The Bureau of State Audits reported the same finding in fiscal years 1994-95 and 1995-96.	Currently, all multijurisdictional projects are categorized under program purpose area #2, and all non-multijurisdictional projects have been notified that they are subject to the 48-month rule. Additionally, a log book is maintained on all Byrne-funded projects that lists the program purpose area of each project, and the year that it was first funded. A review of this log at the beginning of each funding cycle enables OCJP to know which projects are exempt from the 48-month rule, and by what date the other projects will need to change the focus of their activities. OCJP has also instituted a grant file numbering system that identifies how many years each project has been funded under its current program purpose area.[12]

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State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Transportation	97-14-2 20.205	Special Tests and Provisions. The Department of Transportation (Caltrans) did not always comply with the federal requirement for materials sampling and testing. Specifically, Caltrans did not always follow its Construction Manual for frequency of sampling and testing construction materials.	The Caltrans has taken corrective action by filling two vacancies in the Materials Laboratory and providing testing frequency in accordance with the Caltrans Construction Manual. Currently, the Marysville Materials Laboratory is in compliance with the Caltrans Construction Manual for required frequency of testing. Compliance has been maintained during the recently completed construction season, with 99 percent coverage given for testing requested with 24-hour notice, and coverage on an inspector-availability basis given for testing requested without such notice.
Department of Rehabilitation	97-14-1 84.126	Services Allowed, Eligibility. The Department of Rehabilitation (DOR) files do not fully comply with federal and state regulations because the files do not document DOR's evaluation of its client's progress. In addition, the DOR's completion and review of the Individualized Written Rehabilitation Program (IWRP) and determination of the client's eligibility were not always in accordance with federal and state regulations.	The DOR has taken the following steps to improve its success in meeting the timeliness for progress evaluations, annual reviews, eligibility determination, and IWRP development: • Developed and implemented a new system for monitoring case processing and review requirements in March 1998. • Conducting a management study, in collaboration with the Regional Counselor Continuing Education Program (RCCEP), to develop a statewide multi-level case review system for monitoring compliance and program effectiveness. • Revising the timeline requirements in the California Code of Regulations for progress evaluations and IWRP development for greater consistency with federal law. • Aggressively filled vacant counselor positions during fiscal year 1997-98 and, as a result, reduced the counselor vacancy rate from 14 percent to 8 percent.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
			• Developed and distributed statewide a new Case Recording Handbook dated October 8, 1998. • Provided a two-day training seminar on compliance issues at a statewide meeting of Rehabilitation Supervisors and District Administrators on April 22 and 23, 1998. In addition, case file review and monitoring is emphasized on an ongoing basis at statewide and regional meetings with district administrators and rehabilitation supervisors.[13]
Department of Education	97-2-2 84.027	Allowable Costs and Cost Principles. The Bureau of State Audits found that the Department of Education (CDE) charged costs to Special Education that are not specific to the performance of the federal grant award.	The CDE does not agree with this audit finding and believes that it is fully complying with the rules and regulations governing the Special Education program, including its charging of the federal grant for the costs of allocating state funds in support of the federal program. Further, the CDE does not believe that it needs advance approval from the U.S. Department of Education to continue this practice. As such, a corrective action plan is not necessary.[14]
Department of Alcohol and Drug Programs	97-7-2 84.186	Earmarking. The Department of Alcohol and Drug Programs (DADP) needs to improve its system for monitoring administrative expenditures allocable to the federal Safe and Drug-Free program. Because it did not monitor expenditures by grant award, the DADP exceeded its administrative cost limit by $210,000.	This issue has been resolved with the U.S. Department of Education. Per the settlement agreement, effective with the July 1, 1999, grant award, the DADP will establish accounting procedures to monitor compliance with the SDFSC administrative cost cap.

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State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
California Student Aid Commission	97-14-3 84.032	Special Tests and Provisions. The California Student Aid Commission (commission) did not have a system to provide adequate oversight of the activities of its auxiliary. The commission did not retain sufficient staff to adequately protect the public funds entrusted to it, and the commission paid invoices submitted by the auxiliary without reviewing the invoices for propriety.	To establish a system of controls over the commission's auxiliary, EDFUND, the following steps were taken to insure the appropriate oversight structure: • The positions of Executive Director of the commission and President/CEO of EDFUND were separated. The new Executive Director of the commission, Wally Boeck, was hired in August 1998. Jon Shaver is the President/CEO of EDFUND. • The commission's Federal Loan and EDFUND Oversight Committee expanded its duties to include review of policy and operational issues related to the loan programs and EDFUND contract performances. • The commission appointed a liaison to the EDFUND Board from the membership of the Federal Loan and EDFUND Oversight Committee. • The EDFUND board appointed a liaison to the commission board. • The commission's annual workshop was conducted in conjunction with the EDFUND annual workshop. • The responsibilities of the Audit Committee were expanded to include oversight of EDFUND. • The commission requested and received budget approval for new positions and resources to strengthen its loan-related oversight responsibilities. • EDFUND transferred all accounting positions responsible for the maintenance of the Loan Reserve Fund back to the commission.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
			• The Commission's Internal Audit Services has begun an internal control review of the Commission and its auxiliary, EDFUND. This review will establish the adequacy of controls in many areas, but especially those controls that exist in the cash receipts and disbursements functions. In addition to the review of the system of controls for each organization, expenditures submitted through invoices by EDFUND to the Commission are being reviewed through the audit process.[15]
California Student Aid Commission	97-14-4 84.032	Special Tests and Provisions. The California Student Aid Commission did not report approximately $10.5 million (11 percent) of the collections owed to the federal government for fiscal year 1996-97 within the required 45 days. The Bureau of State Audits reported a similar finding for audits of fiscal years 1994-95 and 1995-96.	As of June 30, 1996, the percent of collections reported late was 28 percent. The percent of late collections reported was reduced to 11 percent as of June 30, 1997. It was further reduced to 8 percent as of June 30, 1998. For the period July 1, 1998, through November 30, 1998, collections reported late equates to 0.45 percent.
California Student Aid Commission	97-14-5 84.032	Special Tests and Provisions. In the contract monitoring reviews conducted in 1994, the California Student Aid Commission (commission) noted findings regarding due diligence activities performed by the collection agencies. However, the commission did not conduct contract compliance reviews from July 1995 to January 1998, for ensuring their collection agencies perform due diligence activities.	The commission's auxiliary, EDFUND, currently has six external collection agencies under contract to perform collections on defaulted accounts. Contract compliance and "due diligence" reviews have been performed on five of the agencies in 1998. The remaining collection agency will be reviewed in January 1999. Annual reviews will be conducted on all collection agencies contracted with EDFUND.

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State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
California Student Aid Commission	97-14-6 84.032	Special Tests and Provisions. The information the California Student Aid Commission (commission) reports to the federal government for computing the reinsurance rate is not always accurate, and thus, the commission may not be receiving the correct amount of funds from the federal government. A similar finding for audit of fiscal year 1995-96 was reported.	The Lender Portfolio Reconciliation Project has been completed. As of September 25, 1998, all loans guaranteed prior to January 1, 1995, that were in an active status, were matched to the active portfolios or participating lenders. Of the 2.4 million loan records identified at the outset of the project, almost 2 million loan records received confirming transactions from lenders. The remaining 500,000 loans were resolved by administrative action. These loans were either classified as paid-in-full, uninsured, or canceled. Loan record changes that resulted from the reconciliation project have all been posted to the Financial Aid Processing system. Lenders have been advised that the commission through its auxiliary, EDFUND, will begin a new reconciliation project in February 1999. This new project is intended to include all loans guaranteed in 1995, 1996, and 1997.[16]
Department of Health Services	97-1-3 93.778	Activities Allowed or Unallowed. The Department of Health Services (DHS) does not have adequate controls to ensure that provider claim documents are appropriately certified. For 4 of the 13 provider claims reviewed, the claim documentation did not contain proper evidence of the authenticity of the claim information. The Bureau of State Audits (BSA) reported a similar finding for audits of fiscal years 1994-95 and 1995-96.	DHS implemented new procedures that reject claims that are not properly certified. In the fiscal year 1997-98 federal compliance review, BSA has not cited DHS for inadequate controls on claim certification.

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State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Health Services	97-7-1 93.917	Matching, Level of Effort, and Earmarking. The Department of Health Services did not have sufficient internal controls in place to ensure that not less than 15 percent of HIV Care grant funds were allocated to provide health and support services to infants, children, women, and families with HIV.	Currently, costs are systematically tracked in accordance with the formula-based allocations, which are now based upon each county's demographic incidence of AIDS among the population.
Department of Education	97-7-3 93.596	Earmarking. The Department of Education (CDE) did not select an appropriate child care program to meet the United States Code, Title 42, Section 9858c(c)(3)(d) requiring the CDE to expend in each fiscal year a substantial portion of the grant funds, after meeting other specified earmarking requirements, to provide child care assistance to low-income, working families.	The CDE took immediate action to correct the audit finding. In the future, the CDE will ensure that it expends a "substantial portion" of the grant funds, after meeting all other specified earmarking requirements, to provide child care services to families who are low-income and working.
Community Services and Development	97-8-1 93.568	Period of Availability. The Department of Community Services and Development (CSD) does not have a specific process to determine LIHEAP program funds available for carryover.	The CSD has always had a process to determine the amount of the carryover for the LIHEAP program. In addition to the use of the State's CALSTAR accounting system, the CSD staff also employ spreadsheets to ensure that the carryover does not exceed the maximum allowable. In this instance, the Bureau of State Audits (BSA) included leveraging funds that should not have been included in calculating the carry-over amount. Through a review conducted by CSD's audit staff and budget officer, it has been verified that the amount of the carryover did not exceed the allowable 10 percent. It was found that the BSA auditors did not account for all of the expenditures that had been incurred. The CSD staff are currently working with BSA to eliminate this audit finding entirely.

State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
Department of Alcohol and Drug Programs	97-14-1 93.959	Special Tests and Provisions. The Department of Alcohol and Drug Programs did not provide for periodic independent peer reviews to assess the quality, appropriateness, and efficacy of services provided by treatment providers receiving Substance Abuse Prevention and Treatment program funds.	The Substance Abuse and Mental Health Services Administration (SAMHSA), the Division of Grants Management, Financial Advisory Services Office, has determined that adequate corrective action has been taken regarding the independent peer review issue.
Department of Social Services	97-12-3 Various	The Department of Social Services (DSS) did not reconcile all of its quarterly federal cash transaction reports or its final federal financial status or expenditure reports prepared during fiscal year 1996-97 to the DSS's accounting records. The Bureau of State Audits (BSA) reported similar findings for audits of fiscal years 1993-94 and 1995-96.	DSS has implemented federal financial report reconciliations to subsidiary accounting records, including California State Accounting and Reporting System (CALSTARS), for all federal financial reports. The DSS is continuing to work with BSA to refine the reconciliation process and ensure compliance with this recommendation. BSA staff will be reviewing these reconciliations during their single audit of the DSS financial statements for fiscal year 1997-98.[17]
California Conservation Corps	97-2-1 94.006	Allowable Costs. The California Conservation Corps (CCC) did not always review subgrantee invoices to ensure that they were properly supported.	The CCC is currently working with Director of Fiscal Services at Folsom Cordova School District to resolve the overpayment issue. The accounting office has continued to work very closely with all program managers to ensure that all charges submitted by subgrantees are for actual expenditures already incurred before making payments for any AmeriCorps programs.[18]

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State Department	Reference Number and Federal Catalog Number	Audit Finding	Status of Corrective Action
California Conservation Corps	97-13-3 94.006	Subrecipient Monitoring. The California Conservation Corps (CCC) did not sufficiently monitor its subgrantees' fiscal activities. The delays and lack of proper documentation indicated that there was a lapse in responsibility for monitoring this grant. In addition, the system that ensures careful review of invoices appeared to be ineffective.	As a follow up, an additional memorandum, dated December 24, 1997, was sent out to the district offices as notification that they must use the checklists that the Accounting Branch had provided in order to maintain sufficient and supporting documentation. The Accounting Branch has been working very closely with the program managers to ensure timely and accurate reporting. No payments have been issued until all supporting documentation has been received. If there is insufficient documentation, the CCC has disallowed the costs. As a proactive approach, the CCC Accounting and Project Support branches have provided training sessions with sponsors and project coordinators regarding the submission of proper invoices and documentation. The skills and abilities of each program manager have been reviewed to determine if levels are adequate for further responsibilities. As a result of this, there have been some rotations of assignments.[18]

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FOOTNOTES

[1] Our testing revealed that for fiscal year 1997-98, the DADP, Chancellor's Office, DMH, and EDD continued to allocate some personal service costs to activities based on estimates rather than actual time worked and did not update estimates at least quarterly. However, these exceptions did not constitute material noncompliance.

[2] We reported a similar weakness during our fiscal year 1997-98 audit. Please refer to reference number 98-2-4 for additional information.

[3] Although the CDE has made some effort to correct the weakness that we identified in our audit of fiscal year 1996-97, it did not always allocate personal service costs to activities of the Vocational Education and Adult Education programs based on actual time worked. However, because these costs were immaterial to the programs, we did not report this issue for fiscal year 1997-98.

[4] The status of this issue remains unchanged. Please refer to reference number 98-12-3 for additional information.

[5] The 1998-99 Budget Change Proposal was not approved in January 1999. Consequently, we continued to find that OES is not adequately monitoring subrecipients. Please refer to reference number 98-13-1 for additional information.

[6] The law now requires subrecipients that spend more than $300,000 in federal funds, including commodities, to submit A-133 audit reports. Although the CDE maintained responsibility to ensure timely receipt of these reports from its nonprofit subrecipients, its system is not sufficient to ensure compliance. Please refer to reference number 98-13-4 for additional information.

[7] We reviewed the status of this issue during our audit of fiscal year 1997-98 and found that the Chancellor's Office had written procedures in place but did not fully implement them. Therefore, we reported a similar weakness. Please refer to reference number 98-13-3 for additional information.

[8] The CDE is correcting the weaknesses that we identified in our audit of fiscal year 1996-97. However, it has not completed its modifications to ensure compliance with federal laws and, therefore, we reported this weakness again in fiscal year 1997-98. Please refer to reference number 98-5-2 for additional information.

[9] The HCD has corrected some of the weaknesses we identified in our fiscal year 1996-97 audit. In fiscal year 1997-98, its reports included accurate financial data; however, its statistical data continues to be incomplete. Nonetheless, we did not consider this to be a material deficiency.

[10] We agree that by September 30, 1998, the Department of Housing and Community Development (HCD) developed written procedures and implemented long-term, on-site monitoring of multi-family rental projects. Because the HCD is still in its initial stages of implementing these monitoring activities, we noted that it does not always adhere to its written procedures. Specifically, findings and concerns identified during monitoring visits are not always communicated and resolved in a timely manner. However, because we determined that this is not a material weakness to the program, we are not reporting it as a finding for fiscal year 1997-98.

[11] The OCJP submitted a written request for the extension in April 1999. However, as stated in its corrective action, OCJP cannot revise its financial status reports until the U.S. Department of Justice formally approves the extension. We will review the revised reports during our fiscal year 1998-99 audit, if they are available.

[12] We reported a similar weakness during our fiscal year 1997-98 audit. However, our audit covered the period from July 1, 1997, to June 30, 1998, and OCJP's statements may reflect its actions taken after our audit period, which we have not reviewed. Please refer to reference number 98-14-6 for additional information.

[13] We agree that the DOR has taken action to correct the noncompliance we identified in our fiscal year 1996-97 audit. However, we noted similar noncompliance in our fiscal year 1997-98 audit. Please refer to reference number 98-5-1 for additional information regarding eligibility requirements. However, for progress evaluations, annual reviews, and IWRP development, these exceptions do not constitute material noncompliance.

[14] We disagree with the CDE's position. Additionally, it has not implemented any corrective action plan. Therefore, we reported this weakness again in our audit of fiscal year 1997-98. Please refer to reference number 98-2-2 for additional information.

[15] Although we agree that the commission implemented some of the corrective actions indicated, we reported a similar weakness for fiscal year 1997-98 because it did not begin to implement the actions until late fiscal year 1997-98. Therefore, during fiscal year 1997-98, we could not assess whether the commission has implemented all actions sufficiently to ensure that the auxiliary is complying with all provisions of the operation agreement. Please refer to reference number 98-14-1 for additional information.

[16] Although the commission has completed its lender reconciliation project, its system continues to reflect inaccurate loan status information. Please refer to reference number 98-14-3.

[17] Although the DSS made significant progress in implementing its reconciliation process and has prepared adequate reconciliations for all major ongoing programs, it still has not completed the reconciliation for its JOBS program. Please refer to reference number 98-12-5 for additional information.

[18] We agree that the CCC has taken action to correct the noncompliance we identified in our fiscal year 1996-97 audit. However, we noted similar noncompliance in our fiscal year 1997-98 audit. Please refer to reference number 98-2-5 for additional information regarding eligibility requirements.

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Schedule of Federal Assistance

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STATE OF CALIFORNIA
SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 1998

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Department of Agriculture:			
Forestry Incentives Program	10.064	$ 5,907	
Grants for Agriculture Research—Competitive Research Grants	10.206	25,538	
Food Distribution	10.550	84,130,084	*
Food Stamps	10.551	2,225,360,622	*
School Breakfast Program	10.553	179,131,903	
National School Lunch Program	10.555	676,615,853	
Special Milk Program for Children	10.556	841,574	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	685,924,759	
Child and Adult Care Food Program	10.558	170,520,124	
Summer Food Service Program for Children	10.559	18,610,684	
State Administrative Expenses for Child Nutrition	10.560	13,909,393	
State Administrative Matching Grants for Food Stamp Program	10.561	247,266,031	
Nutrition Education and Training Program	10.564	282,068	
Commodity Supplemental Food Program	10.565	1,520,049	
Emergency Food Assistance Program	10.568	31,488,650	*
Nutrition Program for the Elderly	10.570	11,484,212	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	123,711	
Team Nutrition Grants	10.574	176,847	
Forestry Research	10.652	43,290	
Cooperative Forestry Assistance	10.664	1,815,189	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Schools and Roads—Grant to States	10.665	33,976,533
National Forest—Dependent Rural Communities	10.670	784,693
Other—U.S. Department of Agriculture	10.999	751,121
Department of Commerce:		
Trade Development	11.110	33,239
Economic Development—Support for Planning Organizations	11.302	121,657
Economic Development—State and Local Economic Development Planning	11.305	50,000
Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration	11.307	757,947
Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation	11.311	2,803,308 **
Anadromous Fish Conservation Act Program	11.405	471,059
Interjurisdictional Fisheries Act of 1986	11.407	112,425
Coastal Zone Management Administration Awards	11.419	2,659,185
Coastal Zone Management Estuarine Research Reserves	11.420	205,173
Marine Sanctuary Program	11.429	142,149
Marine Fisheries Initiative	11.433	8,386
Coastal Services Center	11.473	19,000
Other—U.S. Department of Commerce	11.999	92,500
Department of Defense:		
Navigation Projects	12.107	24,987
Planning Assistance to States	12.110	716,902
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	13,641,338

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Basic and Applied Scientific Research	12.300	25,952
National Guard Military Operations and Maintenance (O&M) Projects	12.401	22,825,667
Community Economic Adjustment Planning Assistance	12.607	70,249
Selected Reserve Educational Assistance Program	12.609	84,554
Community Economic Adjustment Planning Assistance for Reductions in Defense Industry Employment	12.611	120,000
Research and Technology Development	12.910	242,000
Other—U.S. Department of Defense	12.999	7,277,021
Department of Housing and Urban Development:		
Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	14.227	41,000
Community Development Block Grants/ State's Program	14.228	37,916,232
Emergency Shelter Grants Program	14.231	4,446,025
Supportive Housing Program	14.235	6,305,014 **
Supplemental Assistance for Facilities to Assist the Homeless	14.236	243,702
Home Investment Partnerships Program	14.239	56,010,700 **
Housing Opportunities for Persons with AIDS	14.241	1,281,248
Equal Opportunity in Housing	14.400	1,526,060
Section 8 Rental Voucher Program	14.855	945,148
Lower Income Housing Assistance Program—Section 8 Moderate Rehabilitation	14.856	295,450
Section 8 Rental Certificate Program	14.857	1,742,060
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	1,942,723

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Department of Interior:		
Small Reclamation Projects	15.503	337,436
Reclamation and Water Reuse Program	15.504	23,470
Anadromous Fish Conservation	15.600	481,045
Sport Fish Restoration	15.605	8,693,251
Environmental Contaminants	15.607	39,427
Wildlife Restoration	15.611	6,944,185
Endangered Species Conservation	15.612	613,986
Cooperative Endangered Species Conservation Fund	15.615	44
Clean Vessel Act	15.616	694,730
Wildlife Conservation and Appreciation	15.617	105,154
Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	15.618	298,426
U.S. Geological Survey—Research and Data Acquisition	15.808	158,871
Historic Preservation Fund Grants-In-Aid	15.904	2,512,326
Outdoor Recreation—Acquisition, Development and Planning	15.916	1,845,592
Research Information	15.975	675,763
Other—U.S. Department of the Interior	15.999	26,544,727
Department of Justice:		
Juvenile Justice and Delinquency Prevention—Allocation to States	16.540	8,172,602
Juvenile Justice and Delinquency Prevention—Special Emphasis	16.541	1,971,161
Part E—State Challenge Activities	16.549	788,698
National Criminal History Improvement Program (NCHIP)	16.554	3,707,247
Justice Research, Development, and Evaluation Project Grants	16.560	351,110

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Criminal Justice Discretionary Grant Program	16.574	3,566,483	
Crime Victim Assistance	16.575	20,978,426	
Byrne Formula Grant Program	16.579	50,355,982	*
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	6,016	
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	55,397,119	
Violence Against Women Formula Grants	16.588	3,874,490	
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	52,471	
Local Law Enforcement Block Grants Program	16.592	534,629	
Residential Substance Abuse Treatment for State Prisoners	16.593	142,453	
Public Safety Partnership and Community Policing Grants	16.710	4,374,654	
Other—U.S. Department of Justice	16.999	1,451,900	
Department of Labor:			
Labor Force Statistics	17.002	5,843,667	
Compensation and Working Conditions Data	17.005	518,675	
Labor Certification for Alien Workers	17.203	6,113,307	
Employment Service	17.207	89,005,740	
Unemployment Insurance	17.225	3,512,852,320	
Senior Community Service Employment Program	17.235	7,379,188	
Trade Adjustment Assistance—Workers	17.245	7,116,642	
Employment and Training Assistance—Dislocated Workers	17.246	268,726,163	
Employment Services and Job Training—Pilot and Demonstration Programs	17.249	873,773	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Job Training Partnership Act	17.250	325,320,236	
Occupational Safety and Health—State Program	17.503	18,063,000	
Consultation Agreements	17.504	4,437,000	
Mine Health and Safety Grants	17.600	132,631	
Women's Special Employment Assistance	17.700	9,280	
Disabled Veterans' Outreach Program	17.801	11,452,632	
Local Veterans' Employment Representative Program	17.804	6,610,009	
Department of Transportation:			
Boating Safety Financial Assistance	20.005	3,191,193	
Airport Improvement Program	20.106	92,345	
Highway Planning and Construction	20.205	1,705,483,352	**
Motor Carrier Safety	20.217	3,585,725	
Motor Carrier Safety Assistance Program	20.218	37,195	
Federal Transit Capital Improvement Grants	20.500	10,067,167	
Federal Transit Technical Studies Grants	20.505	11,388,302	
Public Transportation for Nonurbanized Areas	20.509	8,186,126	
State Planning and Research	20.515	586,437	
State and Community Highway Safety	20.600	12,802,476	
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	8,620,566	
Pipeline Safety	20.700	2,978,424	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	485,207	
State Marine Schools	20.806	200,000	
Other—U.S. Department of Transportation	20.999	348,859	
Department of Treasury:			
Other—U.S. Department of Treasury	21.999	225	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Equal Employment Opportunity Commission:			
Employment Discrimination—State and Local Fair Employment Practices Agency Contracts	30.002	2,352,500	
General Services Administration:			
Donation of Federal Surplus Personal Property	39.003	8,303,218	***
National Aeronautics and Space Administration:			
Aerospace Education Services Program	43.001	432,291	
National Foundation on the Arts and the Humanities:			
Promotion of the Arts—Media Arts: Film/Radio/Television	45.006	50,000	
Promotion of the Arts—State and Regional Program	45.007	929,655	
Institute of Museum and Library Services—General Operation Support	45.301	6,294	
National Science Foundation:			
Engineering Grants	47.041	186,486	
Mathematical and Physical Sciences	47.049	13,650	
Geosciences	47.050	2,264	
Biological, Behavioral, and Social Sciences	47.051	49,599	
Material, Development, Research, and Informed Science Education	47.067	77,968	
Studies, Evaluation, and Dissemination	47.068	1,187,635	
Computer and Information Science and Engineering	47.070	12,655	
Science and Technology Centers	47.073	1,462,264	
Biological Sciences	47.074	799,176	
Social, Behavioral, and Economic Sciences	47.075	113,324	
Education and Human Resources	47.076	1,355,341	
Academic Research Infrastructure	47.077	86,861	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Small Business Administration:			
Procurement Assistance to Small Businesses	59.009	555,859	
Small Business Development Center	59.037	6,683,814	
Department of Veterans Affairs:			
Grants to State for Construction of States Home Facilities	64.005	328,126	
Veterans State Domiciliary Care	64.014	5,188,611	
Veterans State Nursing Home Care	64.015	8,562,930	
Veterans State Hospital Care	64.016	158,066	
All Volunteer Force Educational Assistance	64.124	37,789	
Other—U.S. Department of Veterans Affairs	64.999	482,308	
Environmental Protection Agency:			
Air Pollution Control Program Support	66.001	15,735,649	
Air Pollution Control Technical Training	66.006	89,375	
Air Pollution Control—National Ambient Air and Source Emission Data	66.007	1,149	
State Indoor Radon Grants	66.032	181,112	
Construction Grants for Wastewater Treatment Works	66.418	109,704	
Water Pollution Control—State and Interstate Program Support	66.419	4,352,567	
State Underground Water Source Protection	66.433	415,025	
Water Pollution Control—Lake Restoration Cooperative Agreements	66.435	76,481	
Construction Management Assistance	66.438	1,302,155	
Water Quality Management Planning	66.454	731,861	
National Estuary Program	66.456	176,578	
Capitalization Grants for State Revolving Funds	66.458	821,754,502	**
Nonpoint Source Implementation Grants	66.460	5,193,560	
Wetlands Protection—Development Grants	66.461	611,194	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
EPA New Coastal Waters Program	66.462	245,407
National Pollutant Discharge Elimination System Related State Program Grants	66.463	1,014,698
Near Coastal Waters	66.464	62,619
Environmental Protection—Consolidated Research	66.500	115,951
Air Pollution Control Research	66.501	57,326
Water Pollution Control—Research, Development, and Demonstration	66.505	2,730
Safe Drinking Water Research and Demonstration	66.506	6,848,390
Toxic Substances Research	66.507	481,010
Surveys, Studies, Investigations and Special Purpose Grants	66.606	463,081 *
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	2,579,959
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	20,890
TSCA Title IV State Lead Grants—Certification of Lead-Based Paint Professionals	66.707	393,889
Pollution Prevention Grants Program	66.708	170,077
Hazardous Waste Management State Program Support	66.801	6,866,570
Superfund State Site—Specific Cooperative Agreements	66.802	2,997,622
State Underground Storage Tanks Program	66.804	370,184
Leaking Underground Storage Tank Trust Fund Program	66.805	2,844,288
Solid Waste Management Assistance	66.808	289,942
Other—U.S. Environmental Protection Agency	66.999	2,469,229

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Department of Energy:		
University—Laboratory Cooperative Program (CIM)	81.004	20,330
State Energy Program	81.041	2,519,007
Weatherization Assistance for Low-Income Persons	81.042	4,042,552
Environmental Research and Impact Assessments	81.046	34,407
Office of Energy Research Financial Assistance Program	81.049	144,539
Energy Conservation for Institutional Buildings	81.052	1,105,338
Regional Biomass Energy Programs	81.079	51,407
Conservation Research and Development	81.086	79,594
Renewable Energy Research and Development	81.087	1,639,717
Environmental Restoration	81.092	439,808
Technology Development for Environmental Management	81.104	36,426
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	149,737
Other—U.S. Department of Energy	81.999	173,081
United States Information Agency:		
Educational Exchange—University Lecturers (Professors) and Research Scholars	82.002	84,184
Federal Emergency Management Agency:		
Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986.	83.011	72,640
Acquisition of Flood Damage Structures	83.502	224,188
Civil Defense—State and Local Emergency Management Assistance	83.503	3,151,696

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
State Disaster Preparedness Grants	83.505	7,455
Arson Prevention Grant	83.508	11,514
Earthquake Hazards Reduction Grants	83.521	1,270,234
Emergency Management Institute—Field Training Program	83.528	152,792
State and Local Emergency Management Assistance—Other Assistance	83.531	8,925
Emergency Management—State and Local Assistance	83.534	6,717,608
Mitigation Assistance	83.535	371,338
Flood Mitigation Assistance	83.536	68
Crisis Counseling	83.539	42,557
Individual and Family Grants	83.543	4,292,968
Public Assistance Grants	83.544	278,450,930
Hazard Mitigation Grant	83.548	36,696,596
Department of Education:		
Adult Education—State Grant Program	84.002	42,458,254
Title I Grants to Local Educational Agencies	84.010	796,451,245
Migrant Education—Basic State Grant Program	84.011	85,586,505
Title I Program for Neglected and Delinquent Children	84.013	3,644,668
Special Education—Innovation and Development	84.023	217,194
Services for Children with Deaf-Blindness	84.025	974,879
Special Education—Grants to States	84.027	281,811,284
Special Education—Personnel Development and Parent Training	84.029	948,939
Federal Family Education Loans	84.032	22,992,545,820 **
Public Library Services	84.034	11,650,116
Interlibrary Cooperation and Resource Sharing	84.035	1,092,945

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Vocational Education—Basic Grants to States	84.048	110,931,412
Vocational Education—Consumer and Homemaking Education	84.049	266,287
Vocational Education—State Councils	84.053	259,794
State Student Incentives Grants	84.069	7,835,538
Postsecondary Education Programs for Persons with Disabilities	84.078	64,064
Fund for the Improvement of Postsecondary Education	84.116	203,208
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	202,889,152
Rehabilitation Services—Service Projects	84.128	1,463,166
Rehabilitation Long-Term Training	84.129	323,869
Centers For Independent Living	84.132	2,351,326
Business and International Education	84.153	83,460
Public Library Construction and Technology Enhancement	84.154	1,197,793
Secondary Education and Transitional Services for Youth with Disabilities	84.158	210,473
Immigrant Education	84.162	23,513,814
Independent Living—State Grants	84.169	2,718,916
Special Education—Preschool Grants	84.173	27,379,165
Vocational Education—Community Based Organizations	84.174	195
Douglas Teacher Scholarships	84.176	151,476
Rehabilitation Services—Independent Living Services for Older Individuals Who are Blind	84.177	228,965
Special Education—Grants for Infants and Families with Disabilities	84.181	39,299,812
Byrd Honors Scholarships and Communities	84.185	1,780,716

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Safe and Drug-Free Schools and Communities—State Grants	84.186	55,540,703
Supported Employment Services for Individuals with Severe Disabilities	84.187	5,071,630
Bilingual Education Support Services	84.194	1,184,100
Education for Homeless Children and Youth	84.196	3,906,347
Graduate Assistance in Areas of National Need	84.200	149,313
Even Start—State Educational Agencies	84.213	9,450,428
Fund for the Improvement of Education	84.215	435,353
Capital Expenses	84.216	2,106,871
State School Improvement Grants	84.218	1,859,656
State Grants for Assistive Technology	84.224	856,438
Tech-Prep Education	84.243	10,795,607
Urban Community Service	84.252	573,235
Rehabilitation Training—Experimental and Innovative Training	84.263	106,076
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.265	279,851
National Early Intervention Scholarship and Partnership	84.272	332,957
Goals 2000—State and Local Education Systemic Improvement Grants	84.276	65,583,738
School Career Implementation Grants	84.278	2,177,251
Eisenhower Professional Development State Grants	84.281	33,399,747
Charter Schools	84.282	1,265,307
Innovative Education Program Strategies	84.298	35,020,134
Technology Literacy Challenge Fund Grants	84.318	9,724,386

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Department of Health and Human Services:		
Public Health and Social Services Emergency Fund	93.003	217,206
Special Programs for the Aging—Title III, Part F—Disease Prevention and Health Promotion Services	93.043	1,576,134
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	29,435,672
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045	41,123,510
Special Programs for the Aging—Title III, Part D—In-Home Services for Frail Older Individuals	93.046	891,366
Special Programs for the Aging—Title VII, Chapter 6—Allotments for Vulnerable Elder Rights Protection Programs	93.049	55,828
Grants for Residential Treatment Programs for Pregnant and Postpartum Women	93.101	4,655,190
Demonstration Grants for Residential Treatment for Women and Their Children	93.102	2,841,290
Food and Drug Administration—Research	93.103	1,634,667
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	2,566,908
Minority International Research Training Grant in the Biomedical and Behavioral Sciences	93.106	1,173,287
Maternal and Child Health Federal Consolidated Programs	93.110	78,280
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	5,983,609
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	8,649,458
Mental Health Planning and Demonstration Project	93.125	1,039,266
Emergency Medical Services for Children	93.127	13,605

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services—Mental Health Statistics Improvement Program	93.128	14,890
Injury Prevention and Control Research and State and Community Based Programs	93.136	635,836
Minority Community Health Coalition Demonstration	93.137	126,463
Projects for Assistance in Transition from Homelessness	93.150	1,613,387
Health Program for Toxic Substances and Disease Registry	93.161	694,992
Grants for State Loan Repayment	93.165	840,890
Community Youth Activity Program Block Grants	93.171	220,230
Disabilities Prevention	93.184	115,728
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196	916,643
Biological Models and Materials Research	93.198	40,761
Health Care Systems Cost and Access Research and Development Grants	93.226	72,476
Demonstration Cooperative Agreements for Development and Implementation of Criminal Justice Treatment Networks	93.229	728,023
Consolidated Knowledge Development and Application Program	93.230	17,159
Immunization Grants	93.268	86,301,940 *
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	85,188
Advanced Nurse Education	93.299	147,878
Biomedical Research Support	93.337	152,689
Professional Nurse Traineeships	93.358	113,981
Minority Biomedical Research Support	93.375	39,576
Research Infrastructure	93.389	988,202

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Academic Research Enhancement Award (AREA)	93.390	62,040
Cancer Detection and Diagnosis Research	93.394	382
Family Preservation and Support Services	93.556	19,852,427
Temporary Assistance for Needy Families	93.558	3,061,377,772
Family Support Payments to States—Assistance Payments	93.560	12,849,908
Job Opportunities and Basic Skills Training	93.561	13,089,824
Assistance Payments—Research	93.562	548,786
Child Support Enforcement	93.563	34,579,519
Refugee and Entrant Assistance—State Administered Programs	93.566	30,481,264
Low-Income Home Energy Assistance	93.568	61,349,871
Community Services Block Grant	93.569	43,319,804
Community Services Block Grant Discretionary Awards—Community Food and Nutrition	93.571	294,381
Child Care and Development Block Grant	93.575	119,855,628
Refugee and Entrant Assistance—Discretionary Grants	93.576	2,825,392
U.S. Repatriate Program	93.579	59,688
Refugee and Entrant Assistance—Targeted Assistance	93.584	6,849,735
Empowerment Zones Program	93.585	4,130,252
Refugee Assistance—Naturalization and Citizenship Activities	93.589	187,136
Community-Based Family Resource and Support Grants	93.590	1,470,289
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	212,696,726
Head Start	93.600	172,391

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Developmental Disabilities Basic Support and Advocacy Grants	93.630	5,762,521
Children's Justice Grants to States	93.643	1,001,226
Child Welfare Services-State Grants	93.645	30,158,568
Social Services Research and Demonstration	93.647	147,033
Temporary Child Care and Crisis Nurseries	93.656	192,587
Foster Care—Title IV-E	93.658	850,415,959
Adoption Assistance	93.659	81,914,138
Social Services Block Grant	93.667	281,169,286
Child Abuse and Neglect State Grants	93.669	936,235
Child Abuse and Neglect Discretionary Activities	93.670	144,498
Family Violence Prevention and Services/ Grants for Battered Women's Shelters— Grants to States and Indian Tribes	93.671	4,955,686
Grants to States for Planning and Development of Dependent Care Programs	93.673	12,721
Independent Living	93.674	12,013,844
Medicare-Supplementary Medical Insurance	93.774	5,410,863
State Medicaid Fraud Control Units	93.775	8,892,199
State Survey and Certification of Health Care Providers and Suppliers	93.777	20,808,498
Medical Assistance Program	93.778	9,955,532,711
Health Care Financing and Research, Demonstrations and Evaluations	93.779	558,913
Cell Biology and Biophysics Research	93.821	30,823
Health Careers Opportunity Program	93.822	157,405
Medical Library Assistance	93.879	4,956
Minority Access to Research Careers	93.880	33,753
Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	93.902	233,992

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Model Criminal Justice Drug Abuse Treatment for Incarcerated Populations, Non-Incarcerated Populations and Juvenile Justice Populations	93.903	748,782
Grants to States for Operation of Offices of Rural Health	93.913	291,683
HIV Care Formula Grants	93.917	74,183,066
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	3,953,359
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	1,036,836
HIV Demonstration, Research, Public and Professional Education Projects	93.941	318,636
Assistance Program for Chronic Disease Prevention and Control	93.945	107,041
Community—Based Comprehensive HIV/STD/TB Outreach Services for High Risk Substance Abusers Demonstration Program	93.949	441,536
Demonstration Grants to States with respect to Alzheimer's Disease	93.951	474,914
Block Grants for Community Mental Health Services	93.958	33,947,048
Block Grants for Prevention and Treatment of Substance Abuse	93.959	197,279,806
Preventive Health Services—Sexually Transmitted Disease Control Grants	93.977	2,007,675
Mental Health Disaster Assistance and Emergency Mental Health	93.982	273,622
Health Program for Refugees	93.987	660,699
Cooperative Agreements for State-Based Diabetes Control Program and Evaluation of Surveillance Systems	93.988	229,583
Preventive Health and Health Services Block Grant	93.991	15,814,911

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Maternal and Child Health Services Block Grant to the States	93.994	39,387,755
Other—Department of Health and Human Services	93.999	13,207,18
Corporation for National and Community Service:		
Service America/Higher Education	94.001	546,367
State Commissions	94.003	1,427,641
Learn and Serve America—School and Community Based Programs	94.004	1,984,579
Learn and Serve America—Higher Education	94.005	247,596
AmeriCorps	94.006	18,652,750
Foster Grandparent Program	94.011	815,877
Social Security Administration:		
Social Security—Disability Insurance	96.001	165,103,443
Social Security—Research and Demonstration	96.007	121,043
Miscellaneous Grants and Contracts:		
Shared Revenue—Flood Control Lands	98.002	185,303
Shared Revenue—Grazing Land	98.004	124,473
Capital Outlay—Reed Act	98.012	551,250
Department of Housing and Urban Development—Interest Reduction	98.013	345,196
U.S. Department of the Interior—Fire Prevention/Suppression Agreement	98.014	134,000
U.S. Department of the Interior—Fire Prevention/Suppression Agreement	98.015	217,412
U.S. Department of Agriculture and Various Other U.S. Department—Fire Prevention/ Suppression	98.016	17,611,340

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Miscellaneous Federal Receipts	98.099	967,828
Miscellaneous Federal Receipts	98.999	4,030,111
Total		**$52,608,753,479**

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

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

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

NOTES TO THE SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 1998

1. GENERAL

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance programs received by the State of California for the fiscal year ended June 30, 1998. This schedule does not include expenditures of federal grants received by the University of California or the California State University. The expenditures of the University of California and California State University are audited by other independent auditors in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (OMB Circular A-133).

The $52,608,753,479 in total federal assistance consists of the following:

Grant amounts received	$26,501,646,305
Noncash federal awards	2,337,557,949
Loans and/or loan guarantees outstanding	20,210,314,821
Insurance in-force	3,559,234,404
Total	**$52,608,753,479**

2. BASIS OF ACCOUNTING

OMB Circular A-133, and the Single Audit Act of 1984 (Amended 1996) require the Schedule of Federal Assistance to present total expenditures for each federal assistance program. However, although the state accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State prepares its Schedule of Federal Assistance on a revenue basis. The schedule shows the amount of cash and noncash federal assistance received, loans and loan guarantees outstanding, and insurance in force for the year ended June 30, 1998.

3. UNEMPLOYMENT INSURANCE

Of the $3,512,852,320 in total unemployment insurance funds (federal catalog number 17.225) received by the Employment Development Department during fiscal year 1997-98, $3,152,611,577 was State Unemployment Insurance funds which were drawn down from the Unemployment Trust Fund in the U.S. Treasury.

4. OTHER

The State was also loaned Federal Excess Personal Property (FEPP) from the U.S. Forest Service during the period October 1, 1997 to September 30, 1998. According to the State's Department of Forestry and Fire Prevention, the amount loaned between October 1, 1997 and September 30, 1998, was approximately $26.4 million. The U.S. Forest Service and the State maintain the FEPP program at federal acquisition costs of the property.

APPENDIX

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Agency's response provided as text only:

June 17, 1999

Mr. Kurt R. Sjoberg
State Auditor
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

STATE OF CALIFORNIA: INTERNAL CONTROL AND STATE AND FEDERAL COMPLIANCE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 1998

Thank you for the opportunity to respond to the internal control and compliance audit report. This report was the result of your examination of the state's general purpose financial statements for the fiscal year ended June 30, 1998, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations. Although our controls can always be improved, the conclusion that none of the findings were material weaknesses is evidence of the state's effective fiscal oversight. The state continues to make substantial progress toward the goal of Year 2000 compliance.

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

In meeting our responsibility for financial leadership and oversight, the Department of Finance conducts internal control reviews of state departments and also reviews areas of potential weakness in the state's fiscal systems. In addition, we provide oversight of departmental internal audit units through the issuance of audit guidelines and completion of quality assurance reviews. Further, we have an ongoing process of issuing Audit Memos to departments to establish policy or provide technical advice on various audit related issues. We will soon issue an Audit Memo concerning the results of the fiscal year 1997-98 Single Audit.

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

Individual departments have separately responded to the findings and recommendations concerning their activities and these responses are included in the report. We will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures.

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

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

Sincerely,

(Signed by:)

B. TIMOTHY GAGE
Director