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February 25, 2010

RECEIVED 2009-002

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S. Kimberly Belshé, Secretary
Health and Human Services Agency
1600 Ninth Street, Suite 460
Sacramento, California 95814-6404

DMH DIRECTOR'S OFFICE

Dear Ms. Belshé:

As part of our comprehensive financial and compliance audit of the State of California for the fiscal year ended June 30, 2009, we assessed the internal controls and administration of federal programs which are under your jurisdiction. We are including the Department of Mental Health's (department) comments within the issues we are reporting. This format allows the department's perspective to be considered and included in our Internal Control and Compliance Report submitted to the Department of Finance.

During our audit for fiscal year 2008-09, we noted certain deviations from federal regulations, which are designed to protect the public's resources. The enclosed issues, with the related recommendations are intended to improve the department's administration of its federal programs. Since the purpose of this letter is to inform you of the issues we have identified at your department and the department's perspectives on these issues, it is not necessary for you or the department's director to respond in writing to our letter. However, if you would like to discuss the issues or the department's responses, please contact Philip J. Jelicich, Deputy State Auditor, or Grant Parks, Audit Principal, at 445-0255, by March 3, 2010.

Sincerely,



ELAINE M. HOWLE, CPA
State Auditor

Enclosures

cc: Stephen W. Mayberg, Ph.D., Director
Department of Mental Health

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-1-7

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-08; 2008
2B09SM010005-07; 2007
06B1CACMHS-01; 2006

Category of Finding: Activities Allowed/Allowable Costs

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

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

(b) Purpose of grants

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

- (1) carrying out the plan submitted under section 300x-1(a) of this title by the State for the fiscal year involved;
- (2) evaluating programs and services carried out under the plan; and
- (3) planning, administration, and educational activities related to providing services under the plan.

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

(a) In general

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

- (1) to provide inpatient services;
- (2) to make cash payments to intended recipients of health services;

- (3) to purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or other facility, or purchase major medical equipment;
- (4) to satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds; or
- (5) to provide financial assistance to any entity other than a public or nonprofit private entity.

CONDITION

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not ensure that subgrantees' expenditures were only for allowable activities and costs. Mental Health relied on the counties' budget and program description components of their applications to determine if funds were used for allowable costs and activities. Specifically, the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS) grant renewal application instructions directs counties to include in their program narrative a description that specifies what is actually being paid for by the block grant funds. However, we reported that our review of program narratives found that counties provided a general outline of program activities and did not explain each budget item. Additionally, we reported that Mental Health did not require the counties to submit invoices, receipts, or payroll information to verify amounts they reported as expenditures. Finally, Mental Health did not perform regular site visits to the counties to verify the allowability of their programs' costs and activities.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health did not fully implement a process to address these conditions. Specifically, although Mental Health added language to its fiscal year 2009–10 Renewal Application package directing counties to explain each budget item in the application, according to Mental Health, it did not make such revisions to the fiscal year 2008–09 Renewal Application package. Further, Mental Health explained that while it planned to distribute the fiscal year 2009–10 Renewal Application package to counties in May 2009, the distribution was delayed until November 2009 due to ongoing revisions to documents in the package. Because counties were not required to submit applications to Mental Health until the end of January 2010, by which time we had completed our follow-up procedures, we were unable to verify whether Mental Health received sufficiently detailed program narratives from each of the counties. Moreover, Mental Health stated that it continues to not require counties to submit invoices, receipts, or payroll information, which would allow it to verify amounts counties report as expenditures.

Additionally, in December 2009, Mental Health sought guidance from SAMHSA regarding whether the counties' annual OMB A-133 audits constitute sufficient monitoring to meet the activities allowed and allowable costs requirements. However, as of January 2010, Mental Health indicated it had not received a response and that if SAMHSA determines counties' A-133 audits are not sufficient to address the activities allowed and allowable costs requirements, Mental Health will determine the feasibility of having its Program Compliance Division conduct the audits in accordance with Mental Health's risk analysis procedures. Without sufficient processes and procedures, Mental Health cannot be certain of whether counties are charging only allowable costs to the program.

QUESTIONED COSTS

Unknown

RECOMMENDATION

Mental Health should establish a process to ensure that only allowable costs and activities are paid for with SAMHSA CMHS grant funds.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health will follow-up with SAMHSA on whether the counties' annual OMB A-133 audits constitute sufficient monitoring to meet the activities allowed and allowable cost requirements. If Mental Health does not receive a response from SAMHSA within two weeks, then Mental Health will form a workgroup to determine the feasibility of having its Program Compliance Division conduct the audits in accordance with Mental Health's risk analysis procedures. Mental Health will begin this task in March 2010.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-3-1
Federal Catalog Number: 93.958
Federal Program Title: Block Grants for Community Mental Health Services
Federal Award Number and Year: 2B09SM010005-08; 2008
Category of Finding: Cash Management
State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

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

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

WELFARE AND INSTITUTIONS CODE, Section 5713

Advances for funding mental health services may be made by the director of Mental Health from funds appropriated to the department for local mental programs and services specified in the annual Budget Act. Any advances made pursuant to this section shall be made in the form and manner the director of Mental Health shall determine. When certified by the director of Mental Health, advances shall be presented to the Controller for payment. Each advance shall be payable from the appropriation made for the fiscal year in which the expenses upon which the advance is based are incurred. The advance may be paid monthly in 12 equal increments but the total amount advanced in one fiscal year shall not exceed 95 percent of the county's total allocation for that year.

STATE OF CALIFORNIA 2008–09 FINAL BUDGET SUMMARY, CHAPTER 268/269,
PAGE 412, Provision 2

The Department of Mental Health may authorize advance payments of federal grant funds on a monthly basis to the counties for grantees. These advance payments may not exceed one-twelfth of Section 2.00 of the individual grant award for the 2008–09 fiscal year.

CONDITION

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health's procedures for monitoring the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS) did not adequately ensure that the advances made to counties were appropriate.

Specifically, the formula in an Excel spreadsheet that Mental Health used to verify that the counties did not have cash balances that were more than 15 percent of their monthly expenditures was flawed and the 15 percent calculation was based on old information that often did not reflect the counties' current balances. Further, Mental Health did not always follow the procedures that stipulate that a county's advance must be adjusted or not made when a county's cash balance exceeds 15 percent of its monthly expenditures. Finally, Mental Health's procedures did not require a supervisory review and approval of monthly advance amounts. These deficiencies hampered Mental Health's determination of acceptable cash balances for the counties and its ability to make appropriate adjustments to their cash advances if needed. Further, until it addressed these issues, Mental Health could not demonstrate that the amount of federal funds it requested represented its actual immediate cash requirement for carrying out the program.

In conducting our follow-up procedures for fiscal year 2008–09, we found that Mental Health did not correct this finding during the period of our review. Specifically, Mental Health continued to use the same procedures for fiscal year 2008–09 to determine the amount to pay counties, including using the same flawed spreadsheet. However, according to Mental Health, it revised its procedures regarding payments to counties and implemented them for the final fiscal year 2008–09 payment to counties, which was authorized in September 2009. Although it implemented its revised procedures after the end of our review period, we performed a preliminary assessment of the procedures and found that they appear to adequately address concerns we reported previously. Specifically, Mental Health discontinued its practice of providing advances to counties and its new procedures include making payments to counties on a quarterly basis. Its written procedures indicate that any county with a cash balance greater than 15 percent relative to its quarterly expenditures must have its payment adjusted or stopped. We also found that Mental Health revised its Excel spreadsheet for verifying counties' cash balances and noted that it appears to accurately indicate whether any payment adjustment is necessary. Mental Health's new procedures also require a supervisory review and approval of payment authorizations.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should continue to implement its procedures to accurately monitor county SAMHSA CMHS cash balances and to adjust its payments to them in accordance with its procedures. Mental Health should also continue requiring supervisory review and approval of payment authorizations.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health will continue to implement its procedures to accurately monitor county SAMHSA CMHS cash balances and to adjust its payments to them in accordance with its procedures. Mental Health will also continue requiring supervisory review and approval of payment authorizations.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-7-3

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-08; 2008
2B09SM010005-07; 2007
06B1CACMHS-01; 2006

Category of Finding: Earmarking

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

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

(b) Limitation on administrative expenses—

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

CONDITION

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not have an official written policy or procedures in place to ensure that administrative costs were charged appropriately to the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS). Mental Health charged all or only a portion of salaries for certain key SAMHSA staff to the grant, based on approved timesheets, but other expenditures such as travel were allocated to the SAMHSA CMHS grant by staff's choice.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health had not developed written policies and procedures to ensure that it consistently and properly applied administrative costs to the SAMHSA CMHS grant. Mental Health stated that updated procedures were unavailable due to the retirement of staff. As a result, Mental Health explained it will form a workgroup consisting of management and staff from program, fiscal, and personnel areas to conduct a review of the current process and develop a written policy and processes to ensure that only allowable costs are used to meet the earmarking requirement. Mental Health asserted that the workgroup plans to begin this task in

February 2010. Without an official policy that outlines the allowable costs that may be claimed and procedures such as supervisory reviews, Mental Health cannot reasonably assure that earmarking requirements are met using only allowable costs.

QUESTIONED COSTS

Unknown

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

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

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-7-4

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-08; 2008
2B09SM010005-07; 2007
06B1CACMHS-01; 2006

Category of Finding: Level of Effort—Maintenance of Effort

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

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

(a) Allocation for systems of integrated services for children

(1) In general

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

- (A) in the case of a grant for fiscal year 1993, the State involved will expend not less than 10 percent of the grant to increase (relative to fiscal year 1992) funding for the system of integrated services described in section 300x-1(b)(9)(1) of this title;
- (B) in the case of a grant for fiscal year 1994, the State will expend not less than 10 percent of the grant to increase (relative to fiscal year 1993) funding for such a system; and
- (C) in the case of a grant for any subsequent fiscal year, the State will expend for such a system not less than an amount equal to the amount expended by the State for fiscal year 1994.

(2) Waiver

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

- (B) The Secretary shall approve or deny a request for a waiver under subparagraph (A) not later than 120 days after the date on which the request is made.
- (C) Any waiver provided by the Secretary under subparagraph (A) shall be applicable only to the fiscal year involved.

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

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

(1) In general

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

(2) Exclusion of certain funds

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

(3) Waiver

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

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Register Volume 66, Number 130 (July 6, 2001), contains a notice from the Substance Abuse and Mental Health Service Administration (SAMHSA) executive officer specifying that states are required as a condition of receipt of funds to maintain State expenditures for community based mental health services for adults with serious mental illness (SMI) and children with serious emotional disturbance (SED) at a level that was equal to the average expenditures for such purposes over the previous two years. The federal register also stated that the Secretary, as a matter within his discretion, had the authority to exclude from the calculation of the maintenance of effort “funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose.”

CONDITION

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health lacked processes and procedures to ensure that it complies with the maintenance of effort (MOE) requirement for this program. Specifically, for the MOE requirement related to the allocation for systems of integrated services for children with SED, we found that two of the

seven components that Mental Health included in its MOE calculation—the Early Mental Health Initiative (EMHI) program and the California AIDS mental health project (AIDS project)—did not specifically target children with SED. Mental Health also did not provide documentation to support the percentages it applied against the total of managed care and realignment dollars to arrive at the amount it reported as expenditures for children with SED. Finally, Mental Health was unable to provide documentation that showed the components and expenditures that were used to generate the fiscal year 1994–95 threshold of \$160 million. For the MOE requirement related to the State’s expenditures for community mental health services, we found that Mental Health did not report all state expenditures for adults with SMI and children with SED. Specifically, it did not include any expenditures made with funds from the Mental Health Services Act (MHSA), and it could not positively state whether other state agencies fund community mental health programs for adults with SMI or children with SED. Finally, one of the six components—the EMHI program—that Mental Health included in its calculations of total expenditures for community mental health services did not specifically target adults with SMI or children with SED.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health had partially corrected these conditions. Specifically, we determined that Mental Health appropriately excluded the EMHI program and the AIDS project from its fiscal year 2008–09 calculation of the MOE for integrated services for children with SED. Similarly, Mental Health appropriately excluded the EMHI from its calculation of total expenditures for community mental health services. However, Mental Health had yet to determine how the percentages it applied against the total managed care and realignment dollars used for the calculation of the MOE were derived. Mental Health also continued to be unable to provide documentation to show the components and expenditures that it used to calculate the fiscal year 1994–95 threshold amount. Further, Mental Health did not report all state expenditures for adults with SMI and children with SED. For example, it did not include any funding from the MHSA in its calculation, and it could not positively state whether other state agencies fund community mental health programs for adults with SMI or children with SED. Until it includes only appropriate expenditures in its calculation of MOE and can adequately support that calculation, Mental Health cannot ensure that it is complying with the MOE requirement for both integrated services for children with SED and for community mental health services.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should reevaluate the percentages used to support the managed care and realignment dollars used in its calculation and retain the supporting documentation. Finally, Mental Health should use the dollar amounts reported in the audited financial statements for the fiscal year 1994–95 threshold.

Mental Health should revise its methodology for calculating the community mental health services MOE requirement to accurately capture and report all state expenditures for adults with SMI and children with SED only.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health will research the percentages used to support the managed care and realignment dollars used in its calculation and retain the supporting documentation. In addition, Mental Health will make inquiries to locate the financial statements for fiscal year 1994–95.

Furthermore, Mental Health will look into revising its methodology for calculating the community mental health services MOE requirement to accurately capture and report all State expenditures for adults with SMI and children with SED only.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-8-3

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-08; 2008
2B09SM010005-07; 2007
06B1CACMHS-01; 2006

Category of Finding: Period of Availability

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICES, SUBCHAPTER XVII—BLOCK GRANTS, PART B—Block Grants Regarding Mental Health and Substance Abuse, Subpart iii—General Provisions, Section 300x-62—Availability to States of Grant Payments

Any amounts paid to a State for a fiscal year under Section 300x or 300x-21 of this title shall be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were paid.

CONDITION

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not have an adequate process to establish obligations of federal awards to counties for a predetermined time period. Specifically, we reported that Mental Health did not revise its accounting procedures to instruct staff on how to charge expenditures to each Block Grant for Community Mental Health Services (CMHS) so that it could ensure the two-year period of availability requirement is met.

During our follow-up work for fiscal year 2008–09, we found that Mental Health did not have adequate accounting procedures in place throughout the fiscal year to ensure it met the two-year period of availability requirement. Specifically, Mental Health did not revise its accounting procedures to instruct staff on how to charge expenditures to each CMHS grant until March 2009. Mental Health instructs its staff to draw down federal funds for the actual state fiscal year the expenditures are incurred. For example, the 2008 CMHS grant has a two-year period of availability that starts October 1, 2007, and ends September 30, 2009. Mental Health would allocate these funds for fiscal year 2008–09, which extends from July 1, 2008, through June 30, 2009. To ensure Mental Health adhered to its new procedures, we reviewed four local assistance payments that occurred after Mental Health revised its procedures and identified no concerns with the payments.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should continue using its revised accounting procedures to ensure that CMHS grant funds are used within the two-year period of availability.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health will continue using its revised accounting procedures to ensure that CMHS grant funds are used within the two-year period of availability.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-9-5
Federal Catalog Number: 93.958
Federal Program Title: Block Grants for Community Mental Health Services
Federal Award Number and Year: 2B09SM010005-08; 2008
Category of Finding: Procurement and Suspension and Debarment
State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 2—GRANTS AND AGREEMENTS, PART 180—U.S. OFFICE OF MANAGEMENT AND BUDGET GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT), Subpart C—Responsibilities of Participants Regarding Transactions Doing Business With Other Persons, Section 180.330—What Requirements Must I Pass Down to Persons at Lower Tiers With Whom I Intend to Do Business?

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to—

- (a) Comply with this subpart as a condition of participating in the transaction. You may do so by using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.
- (b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

TITLE 2—GRANTS AND AGREEMENTS, PART 376—NONPROCUREMENT DEBARMENT AND SUSPENSION, Subpart C—Responsibilities of Participants Regarding Transactions, Section 376.332—What Methods Must I Use to Pass Requirements Down to Participants at Lower Tiers With Whom I Intend to Do Business?

To communicate the requirements to lower-tier participants, you must include a term or condition in the lower-tier transaction requiring the lower-tier participant's compliance with 2 CFR Part 180, as supplemented by this subpart.

CONDITION

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not require counties, as part of their suspension and debarment certifications to the State, to ensure that lower-tier entities with which they entered into covered transactions were not suspended or debarred. Mental Health also did not require counties to pass the requirements down to each person with whom they entered into a covered transaction.

In our follow-up procedures, we found that Mental Health had not yet addressed this finding for fiscal year 2008–09. Mental Health's suspension and debarment certification for fiscal year 2008–09 only requires the county to certify that the county itself is not suspended or debarred, but does not address transactions at the next lower tier. However, a revised suspension and debarment certification is included in the fiscal year 2009–10 Planning Estimate and Renewal Application (application) that Mental Health sent to counties in May 2009. We verified that the language included in the application, which, generally speaking, requires counties to certify that neither they, nor their contracted providers, are presently suspended or debarred, was adequate to address our concerns regarding this issue.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should continue to require counties to certify that neither they, nor their contracted providers, are presently suspended or debarred in their applications.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health will continue to require counties to certify that neither they, nor their contracted providers, are presently suspended or debarred in their applications.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-12-5
Federal Catalog Number: 93.958
Federal Program Title: Block Grants for Community Mental Health Services
Federal Award Number and Year: 2B09SM010005-07; 2007
Category of Finding: Reporting
State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

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

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

- (1) Block grants containing time limits on both the obligation and the expenditure of funds. After the close of each statutory period for the obligation of block grant funds and after the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the Department:
 - (i) Total funds obligated and total funds expended by the grantee during the applicable statutory periods; and
 - (ii) The date of the last obligation and the date of the last expenditure.
- (4) Submission of information. Grantees shall submit the information required by paragraph (b)(1), (2), and (3) of this section on OMB Standard Form 269A, Financial Status Report (short form). Grantees are to provide the requested information within 90 days of the close of the applicable statutory grant periods.

CONDITION

In our prior-year audit, we reported that Mental Health did not have written procedures in place during fiscal year 2007–08 for the annual Standard Form (SF-269A), Financial Status Report, to ensure that the individual who approves the report is not the same individual who prepares it. We also reported that after we brought this to Mental Health's attention, it revised its procedures in February 2009 to require both the preparer and the accounting administrator to sign the report. We recommended that Mental Health implement these procedures.

During our follow-up work for fiscal year 2008–09, we found that Mental Health did not implement its procedures for the SF-269A report it submitted during the period of our review. Specifically, Mental Health was unable to provide documentation to support that the SF-269A

report for the federal fiscal year 2007 block grants for Community Mental Health Services (CMHS), which was submitted on time in December 2008, was reviewed and approved by someone different than the preparer. However, Mental Health stated that it did not implement its revised procedures for submitting the SF-269A report until March 2009, more than three months after it submitted the SF-269A report for the federal fiscal year 2007 CMHS grant.

Although the SF-269A for the federal fiscal year 2008 CMHS grant was due in December 2009, six months after the end of our review period, we reviewed the report to determine whether Mental Health implemented its procedures to require both the preparer and the accounting administrator to sign the report. We found that the SF-269A for the federal fiscal year 2008 CMHS grant was appropriately signed by both the preparer and the reviewer.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should continue to follow its procedures to ensure that the individual who approves the SF-269A is not the same individual who prepares it.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health will continue to follow its procedures to ensure that the individual who approves the SF-269A is not the same individual who prepares it.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-13-8

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-08; 2008
2B09SM010005-07; 2007
06B1CACMHS-01; 2006

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

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

- (d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:
- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
 - (4) Ensure that subrecipients expending \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

OMB CIRCULAR A-133, Subpart B—Audits, Section .225—Sanctions

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

- (a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;
- (b) Withholding or disallowing overhead costs;
- (c) Suspending Federal awards until the audit is conducted; or
- (d) Terminating the Federal award.

CONDITION

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health used the incorrect Catalog of Federal Domestic Assistance (CFDA) title in its correspondence to the counties by referring to the grant as “Federal Substance Abuse and Mental Health Services Administration (SAMHSA) Block Grant.” We also reported that Mental Health did not have procedures in place to follow up when counties had not submitted their annual OMB Circular A-133 audits to the State.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health did not fully correct these conditions. Specifically, it did not use the correct CFDA title in its correspondence to the counties during fiscal year 2008–09; however, for fiscal year 2009–10, Mental Health did include the correct title in its correspondence to the counties. We also found that Mental Health did not develop a procedure for following up with counties that have delinquent OMB Circular A-133 audits until March 2009. Mental Health’s new procedures involve sending a letter to the counties after the State Controller’s Office (SCO) indicates that it has not received the county’s OMB Circular A-133 audit. However, we found that Mental Health did not follow its new procedures when the SCO notified it of a county’s delinquent OMB Circular A-133 audit in November 2009. Specifically, Mental Health did not follow up with the respective county and allowed more than two months to lapse between the time the SCO notified it of the county’s delinquent audit report and the SCO’s receipt of that report. Until Mental Health implements and follows its new procedures, it will be unable to identify and take timely, appropriate corrective action against the counties that fail to comply with the OMB Circular A-133 audit requirements.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should continue to ensure that it is using the correct CFDA title on its correspondence to counties.

Mental Health should implement and follow its new procedures for following up with counties that have not submitted their OMB Circular A-133 audits and should sanction them as necessary. Additionally, Mental Health should ensure that it exercises its new procedures in a timely manner.

DEPARTMENT’S VIEW AND CORRECTIVE ACTION PLAN

Mental Health will continue to ensure that it is using the correct CFDA title on its correspondence to counties.

Mental Health will implement and follow its new procedures for following up with counties that have not submitted their OMB Circular A-133 audits and will take appropriate corrective actions, as necessary. Additionally, Mental Health will ensure that it exercises its new procedures in a timely manner.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2009-14-3
Federal Catalog Number: 93.958
Federal Program Title: Block Grants for Community Mental Health Services
Federal Award Number and Year: 2B09SM010005-08; 2008
Category of Finding: Special Tests and Provisions
State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A – PUBLIC HEALTH SERVICES, SUBCHAPTER XVII—BLOCK GRANTS, Part B—Block Grants Regarding Mental Health and Substance Abuse, Subpart iii—General Provisions, Section 300x-53—Additional Requirements

(a) In general

A funding agreement for a grant under section 300x or 300x-21 of this title is that the State involved will—

- (1) (A) for the fiscal year for which the grant involved is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved; and
- (B) ensure that, in the conduct of such peer review, not fewer than 5 percent of the entities providing services in the State under such program are reviewed (which 5 percent is representative of the total population of such entities).

CONDITION

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not facilitate peer reviews. Mental Health had facilitated peer reviews in the past in conjunction with its site reviews but phased them out in 2004 after a departmental reorganization.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health continued to not facilitate peer reviews. Mental Health has consulted with the California Mental Health Planning Council (council) that has agreed to conduct the independent peer reviews. Mental Health and the council have drafted a memorandum of understanding that describes the procedure by which the council will conduct the peer reviews and Mental Health's role in the process. According to Mental Health, the council has agreed to review

three counties per year to meet the federal peer review requirements. Further, Mental Health explained that the memorandum of understanding should be executed by early spring 2010 and that the council will begin conducting peer reviews shortly thereafter. However, until Mental Health resumes peer reviews, its oversight of the programs offered by counties using the block grants for Community Mental Health Services' funds is diminished.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should implement the planned independent peer reviews, as required by federal law.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health will continue to work with the council to execute the memorandum of understanding by early spring 2010 and ensure that the council will begin conducting peer reviews shortly thereafter.