

July 2009

RECOVERY ACT

States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses (California)



GAO

Accountability * Integrity * Reliability

Contents

Appendix II	California	1
	Overview	1
	California's Fiscal Crisis Deepens, despite Recovery Act Funds	5
	California's Drawdown of Increased FMAP Is the Largest in the United States, but Maintaining Eligibility for Funds Is a Concern in Light of the State's Financial Crises	7
	California Is Beginning to Spend Recovery Act Funds for Highway Infrastructure Investment and Is on Track to Meet Requirements	11
	U.S. Department of Education Recovery Act Funding Will Aid School Districts and Universities	15
	California Is Finalizing Plans for an Expected \$186 Million in Weatherization Assistance Program Funds	22
	California Is Planning to Use WIA Youth Recovery Act Funds to Provide Summer Youth Employment Activities	24
	California Has Received JAG Program Funds and Is Finalizing Plans for the Funds	27
	Most California Public Housing Capital Grant Funding Has Not Been Spent	29
	California Is Implementing Plans for Tracking and Oversight of Recovery Act Funds	33
	State Officials and Local Recipients Continue to Express Concerns about the Lack of Clear Guidance on Measuring Impacts of Recovery Act Funds	46
	State Comments on This Summary	49
	GAO Contacts	49
	Staff Acknowledgments	49

Tables

Table 1: Highway Obligations for California by Project Type as of June 25, 2009	12
Table 2: IDEA Fund Allocations for the Two School Districts We Visited	21
Table 3: Description of WIA Youth Programs GAO Reviewed	25
Table 4: Core Readiness Areas for Agencies Receiving and Disbursing Recovery Act Funds	39

Figures

Figure 1: Monthly Percentage Change in Medicaid Enrollment for California, October 2007 to May 2009	8
Figure 2: Road Rehabilitation on Interstate 80	12
Figure 3: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in California	30
Figure 4: Public Housing Project Rehabilitations Using Recovery Act Funding	33

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

Appendix II: California

Overview

The following summarizes GAO's work on the second of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)¹ spending in California. The full report covering all of GAO's work in 16 states and the District of Columbia is available at <http://www.gao.gov/recovery/>.

Use of funds: GAO's work focused on nine federal programs, selected primarily because they have begun disbursing funds to states, include new programs, or include existing programs receiving significant amounts of Recovery Act funds. Program funds are being directed to help California stabilize its budget and support local governments, particularly school districts, and several are being used to expand existing programs. Funds from some of these programs are intended for disbursement through states or directly to localities. The funds include the following:

- **Funds Made Available as a Result of Increased Medicaid Federal Medical Assistance Percentage (FMAP).** As of June 29, 2009, California has received about \$3.3 billion in increased FMAP grant awards, of which it has drawn down almost \$2.8 billion, or about 83 percent of its awards to date. California is planning on using funds made available as a result of the increased FMAP to help offset the state budget deficit.²
- **Highway Infrastructure Investment funds.** The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned \$2.570 billion in Recovery Act funds to California for highway infrastructure and other eligible projects. As of June 25, 2009, \$1.558 billion of the \$2.570 billion had been obligated and \$1.21 million had been reimbursed to California. As of June 11, California had awarded 23 contracts totaling \$134 million, 2 of which—totaling \$71 million—are under construction: a highway rehabilitation project on Interstate 80 and construction of 3 miles of six-lane freeway on State Route 905 in San Diego County.
- **U.S. Department of Education (Education) State Fiscal Stabilization Fund (SFSF).** Education has awarded California about

¹Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

²The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

\$3.99 billion for SFSF, and as of June 30, 2009, California state officials reported that about \$2.14 billion in education stabilization funds had been expended. California is using most of the education stabilization funds—81.8 percent of total SFSF—to restore state aid to school districts (75 percent) and institutes of higher education (25 percent). The two school districts (Los Angeles and San Bernardino Unified) and university systems (University of California and California State University) we visited are generally using the funds to help avert layoffs. The other 18.2 percent of SFSF, government services funds, must be spent on public safety and other government services at the Governor's discretion and is expected to be directed to public safety, specifically, corrections. As of June 30, 2009, California state officials reported that \$727 million in government services funds had been expended.

- **Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA).** Education has awarded California \$565 million in Recovery Act ESEA Title I, Part A, funds or 50 percent of its total allocation of \$1.1 billion. California's Department of Education is urging local districts to use these funds in ways that will build their long-term capacity to serve disadvantaged youth. The two school districts we visited told us that their preliminary plans for these funds include investment in additional training and coaching for teachers, class size reduction, support for learning centers, and the purchase of reading intervention curriculum materials.
- **Individuals with Disabilities Education Act (IDEA), Part B & C.** Education has awarded California \$661 million in Recovery Act IDEA, Part B and C, funds, or 50 percent of its total allocation of \$1.32 billion. The state plans to make these funds available to local education agencies to support special education and related services for infants, toddlers, children, and youth with disabilities through, among other things, saving jobs and investing in additional training and coaching for teachers. The two school districts we visited told us that they plan to use the funds to hire coaches or other specialists who will help teachers and assistants increase their skills in meeting the special needs of children with disabilities.
- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) allocated about \$186 million in total Recovery Act weatherization funding to California for a 3-year period. On April 1, 2009, DOE provided \$18.6 million to California. Based on information available on June 30, 2009, California has obligated none of these funds. On June 18, DOE announced that California received an

additional 40 percent of the Recovery Act weatherization money, or \$74.3 million. California plans to begin disbursing its funds in July 2009 for weatherizing over 50,000 low-income family homes.

- **Workforce Investment Act Youth Program.** The U.S. Department of Labor allotted about \$187 million to California in Workforce Investment Act Youth Recovery Act funds. California has allocated about \$159 million to local areas, based on information available as of June 30, 2009. California's 49 local areas are free to determine how much of their Recovery Act Workforce Investment Act Youth funding will be spent on summer activities, although in April the Governor issued a letter to local elected officials across the state encouraging them to ensure that most of the funding be expended on summer activities. The California Workforce Association estimates that over 47,000 California youth will participate in Recovery Act-funded summer employment activities in 2009.
- **Edward Byrne Memorial Justice Assistance grants.** The Department of Justice's Bureau of Justice Assistance has awarded \$135 million directly to California in Recovery Act funding. Based on information available as of June 30, 2009, none of these funds have been obligated by the California Emergency Management Agency (CalEMA), which administers these grants for the state.³ About 90 percent is to be allocated by the state to local law enforcement agencies to support local drug reduction efforts. These funds will allow California law enforcement to concentrate efforts on the widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders by enabling law enforcement agencies to create and retain from 275 to 300 positions over the next 4 years.
- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development has allocated approximately \$117 million in Recovery Act formula grant awards from the Public Housing Capital Fund to 55 public housing agencies in California. Based on information available as of June 20, 2009, about \$12.55 million had been obligated by those agencies. At the three housing agencies we visited—Area Housing Authority of the County of Ventura, Sacramento Housing and Redevelopment Agency, and San Francisco Housing Authority—this money, which flows directly to public housing agencies, will be used

³We did not review Edward Byrne Memorial Justice Assistance grants awarded directly to local governments in this report because the Bureau of Justice Assistance's solicitation for local governments closed on June 17; therefore, not all of these funds have been awarded.

for various capital improvements, including replacing windows and roofs and rehabilitating vacant units.

Safeguarding and transparency: California's Recovery Act Task Force (the Task Force) has overarching responsibility for ensuring that the state's Recovery Act funds are spent efficiently and effectively and are tracked and reported in a transparent manner. The Task Force is relying on the state's existing internal control structure, enhanced to include internal readiness reviews and activities of the state's Recovery Act Inspector General, to fulfill this responsibility. The State Auditor will also be expanding the scope of her work to include specific focus on state programs receiving Recovery Act funds. The Task Force will continually report on the use and status of Recovery Act funds using the state's Web site (www.recovery.ca.gov). The Task Force has notified state agencies of their responsibility to separately track and account for Recovery Act funds that both they and their subrecipients receive. State agency and subrecipient officials we interviewed told us that they will establish separate accounting codes within their existing accounting systems that will enable them to effectively track Recovery Act funds. However, accumulating this information at the statewide level will be difficult using existing mechanisms, which currently consist of lengthy, manually updated spreadsheets. The state has issued a request for proposal for a system to effectively track and report all state-level Recovery Act funds to the federal government. State agency and subrecipient officials we spoke with also told us that they will use their existing internal control and oversight processes to maintain accountability for Recovery Act funds at the program level.

Assessing the effects of spending: California state officials and local recipients continue to express concern about the lack of clear federal guidance on assessing the results of Recovery Act spending. Additionally, officials expressed concerns about the potential for inconsistent reporting among subrecipients or contractors. For example, California's Department of Transportation (Caltrans) is planning to rely on job reports and payroll information submitted by contractors, while education programs are planning to estimate the number of employees who would have been otherwise laid off. Aside from job creation, several recipient agencies we spoke with are also developing and implementing plans to evaluate other effects of Recovery Act spending. For example, CalEMA officials told us that they have been given new draft performance measures by the Department of Justice that include Justice Assistance Grant funds. These 71 separate measures are to be assessed each quarter by local law enforcement agencies and submitted to CalEMA for reporting to the

department's Bureau of Justice Assistance 30 days after the end of each quarter.

California's Fiscal Crisis Deepens, despite Recovery Act Funds

California's fiscal situation has deteriorated significantly, as the state's projected budget gap has grown to \$24.3 billion from \$8 billion in April. The Governor has proposed a list of unprecedented budget solutions totaling \$24 billion, including cutting or eliminating many major programs in order to close this gap.⁴ For example, the Governor has proposed borrowing property tax receipts from local governments; major cuts to welfare, education, and other programs; cutting pay for state workers; and selling state assets. The budget gap, which constitutes roughly one quarter of the state's annual budget expenditures, has grown because state revenue projections have declined much faster than anticipated. According to the Legislative Analyst's Office (LAO), revenue forecasts are down over \$15.4 billion since last February's revision for fiscal years 2008-09 and 2009-10. The LAO cited a weakening economy as the year progressed, which reduced collections from personal, sales, and corporate taxes. According to officials in the California Department of Finance, the state legislature is now considering these and other measures to balance the state's budget.

According to state officials, California needs to resolve its budget deficit and cash shortage soon. On May 13, the California Treasurer asked the U.S. Secretary of the Treasury for assistance from the Troubled Asset Relief Fund (TARP) to back state debt issuances. The Treasurer requested that TARP funds be used to guarantee state debt against default; otherwise, issuing new debt in the current budget environment would be very difficult. He warned that the state risked running out of cash in July unless it could issue new debt and that a "fiscal meltdown" by California could destabilize U.S. and global financial markets. On May 21, the Secretary of the Treasury stated that the law did not allow the use of TARP for nonfinancial entities, and the state has not pursued federal guarantees from TARP any further. On May 29 and June 10 of this year, the State Controller notified the state legislature and Governor that the state needed to resolve its budget crisis by June 15 or face running out of cash in late July. The California Department of Finance noted that some extreme

⁴The state has maintained a relatively small rainy-day fund currently targeted at \$2 billion. Even if the full \$24 billion in proposed measures are adopted, the state estimates that it will end the current budget year with a reserve of \$1.5 billion this fiscal year and \$4.5 billion next fiscal year.

measures, such as delaying or not making certain payments, could forestall this date. The State Treasurer has warned that delaying payments to cash strapped school districts could force some into bankruptcy.

The Department of Finance estimates that Recovery Act funds will provide approximately \$8 billion in general budget relief for this fiscal year and next, principally because of increased Federal Medicaid Assistance Percentage and State Fiscal Stabilization Funds. This level of budget relief may fluctuate as the state economic crisis deepens and the state loses the federal match in Temporary Assistance for Needy Families (TANF) or the Medicaid caseload increases significantly. While the February 2009 budget cuts discussed in our April report were not affected by Recovery Act funds, according to state officials, the Recovery Act funds helped delay and reduce the state's budget cuts. Even so, the current budget gap of \$24 billion is three times the size of the general budget relief from Recovery Act funds. Further, the state may have to forgo billions of dollars in federal aid if proposed cuts in TANF and Medicaid programs are undertaken, according to state officials.

Even if the state can balance its budget for next year, it still faces a structural deficit in later years at the same time that Recovery Act funds will be diminishing. The LAO estimates a budget gap of \$15 billion for fiscal year 2010-11, even if all current proposed measures are adopted. State officials indicated that fundamental changes are needed in federal program requirements, along with economic recovery, if California is going to overcome its long-term fiscal problems.

California's Drawdown of Increased FMAP Is the Largest in the United States, but Maintaining Eligibility for Funds Is a Concern in Light of the State's Financial Crises

Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The rate at which states are reimbursed for Medicaid service expenditures is known as the Federal Medical Assistance Percentage (FMAP), which may range from 50 to no more than 83 percent. The Recovery Act provides eligible states with an increased FMAP for 27 months from October 1, 2008, through December 31, 2010.⁵ On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act.⁶ Generally, for federal fiscal year 2009 through the first quarter of federal fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for (1) the maintenance of states' prior year FMAPs; (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs; and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

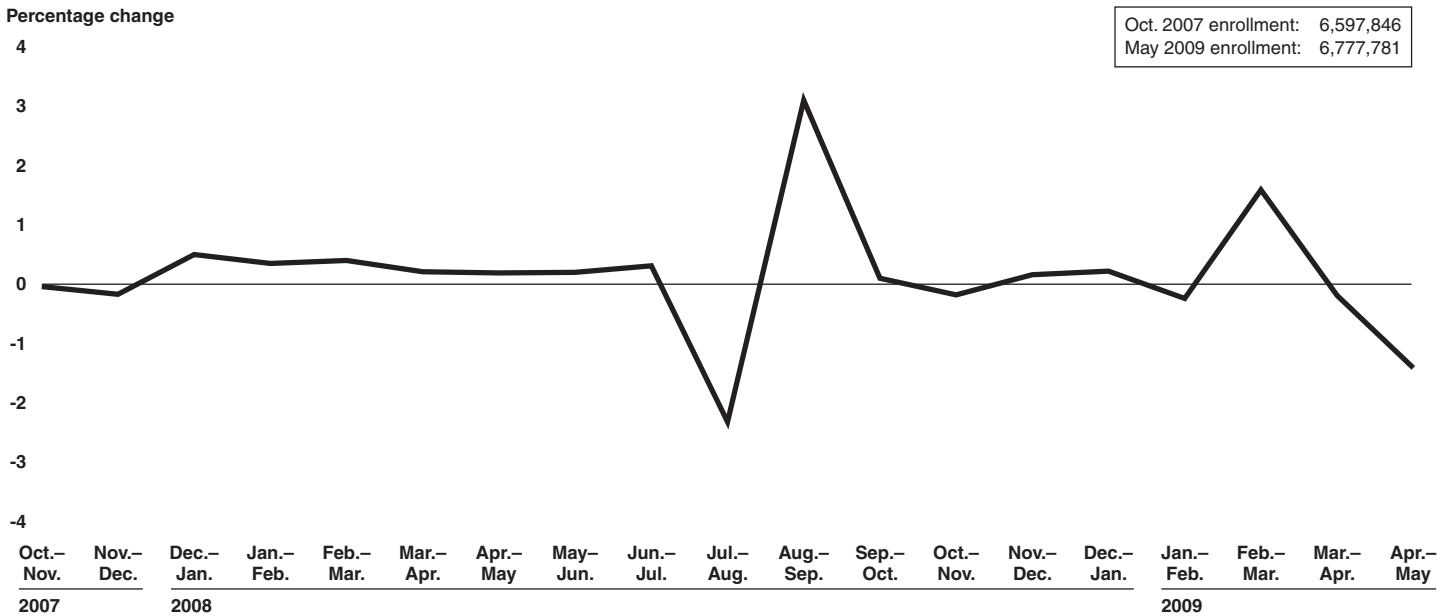
From October 2007 to May 2009, the state's Medicaid enrollment increased from 6,597,846 to 6,777,781, an increase of almost 3 percent, with most of the increase attributable to the children and families population group.⁷ There was a slight decrease in the nondisabled, nonelderly adults population group. Enrollment generally varied during this period—a larger increase occurred from August through September 2008, and there were several months where enrollment decreased (see fig. 1).

⁵See Recovery Act, div. B, title V, § 5001.

⁶Although the effective date of the Recovery Act was February 17, 2009, states generally may claim reimbursement for the increased FMAP for Medicaid service expenditures made on or after October 1, 2008.

⁷State projected enrollment for May 2009.

Figure 1: Monthly Percentage Change in Medicaid Enrollment for California, October 2007 to May 2009



Source: GAO analysis of state reported data.

Note: The state provided projected Medicaid enrollment data for May 2009.

California received increased FMAP grant awards of \$3.3 billion for the first three quarters of federal fiscal year 2009. As of June 29, 2009, California had drawn down almost \$2.8 billion in increased FMAP grant awards, which is about 83 percent of its FMAP awards to date. California officials reported that they are planning on using funds made available as a result of the increased FMAP to help offset the state budget deficit. In using these funds, California officials reported that the Medicaid program has incurred additional costs related to

- the resources required to verify on a daily basis that the state is meeting prompt payment requirements;
- systems development or adjustments to existing reporting systems; and
- the personnel associated with ensuring compliance with reporting requirements related to increased FMAP.

California officials have ongoing concerns regarding meeting requirements for increased FMAP.⁸ Recently, the Governor indicated that the current growth of the state's Medicaid program is unsustainable in light of the financial crises facing the state and requested that the administration work with the state to secure program flexibilities. Specifically, in a May 18 letter to the President, the Governor said that his proposed program changes, which were necessary if California was to manage the program with available resources, were no longer permitted under federal requirements related to the Recovery Act and asked the President to support the state's authority to determine eligibility, the scope of benefits, and the adequacy of provider rates. When asked about the content of this letter, CMS officials confirmed that the Recovery Act precludes waivers of maintenance of eligibility requirements in the act.⁹

In addition, in a May 20, 2009, letter to the Governor, CMS clarified its position regarding California's compliance with the Recovery Act's requirements related to contributions to the nonfederal share made by political subdivisions.¹⁰ In particular, California had asked CMS to clarify whether this requirement would be violated if a county voluntarily used county-only funds to make up for a decrease in the amount appropriated by the state to the Medicaid program for payment of wages of personal

⁸In order to qualify for the increased FMAP, states generally may not apply eligibility standards, methodologies, or procedures that are more restrictive than those in effect under their state Medicaid programs on July 1, 2008. See Recovery Act, div. B, title V, § 5001(f)(1)(A). The state previously reversed a policy that had increased the frequency at which it conducted eligibility redeterminations for children from annually to every 6 months.

⁹See Recovery Act, div. B, title V, § 5001(f)(4).

¹⁰In some states, political subdivisions—such as cities and counties—may be required to help finance the state's share of Medicaid spending. Under the Recovery Act, a state that has such financing arrangements is not eligible for certain elements of the increased FMAP if it requires subdivisions to pay during a quarter of the recession adjustment period a greater percentage of the nonfederal share than the percentage that would have otherwise been required under the state plan on September 30, 2008. See Recovery Act, div. B., title V, § 5001(g)(2). The recession adjustment period is the period beginning October 1, 2008, and ending December 31, 2010.

care service providers.¹¹ In a letter to the state, CMS noted that the state plan in effect on September 30, 2008, allowed the state Medicaid program to consider a county election to pay a greater percentage of the nonfederal share in determining whether to approve Medicaid provider wage rates recommended by the county for personal care services. Because the provisions of the state plan in effect on September 30, 2008, permit counties to elect to pay a higher percentage of the nonfederal share for the payment of wages, the increased payment by the county would not affect the state's eligibility for increased FMAP under the Recovery Act. A CMS official confirmed that if counties elect to use county-only funds to pay the difference in the provider rate, and the state certifies the rate by which the county will pay for these services, the county payment can be claimed as a Medicaid reimbursable expenditure, and can be claimed against the increased FMAP. Conversely, if the state approves provider wage rates at the lower rate—that is, with no county contribution above what the state plan specifies—the state plan must provide that Medicaid providers are limited to the approved rate as payment in full. Additionally, the state needs to ensure that the lack of funding from local sources will not result in lowering the amount, duration, scope or quality of care and services available under the plan.

¹¹According to CMS, the rate-setting methodology under the California state plan gives counties a primary role in developing and recommending Medicaid personal care service provider wage rates to the state agency that administers the Medicaid program. In February 2009, the state enacted a law that as of July 1, 2009, would change the amount that the state contributed for wages and benefits for personal health care service workers from \$12.10 to \$10.10 an hour. The California Medicaid plan in effect on September 30, 2008, provides for counties to contribute 100 percent of the nonfederal share of personal care service expenditures furnished through the county when those expenditures exceed funds appropriated by the legislature for that purpose. California requested that CMS explain whether the county's payment of amounts above the amount appropriated by the state would implicate section 5001(g)(2) of the Recovery Act.

California Is Beginning to Spend Recovery Act Funds for Highway Infrastructure Investment and Is on Track to Meet Requirements

The Recovery Act provides funding to the states for restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program, and for other eligible surface transportation projects. The act requires that 30 percent of these funds be suballocated for projects in metropolitan and other areas of the state. Highway funds are apportioned to the states through existing Federal-Aid highway program mechanisms, and states must follow the requirements of the existing program, including planning, environmental review, contracting, and other requirements. However, the federal fund share of highway infrastructure investment projects under the Recovery Act is up to 100 percent, while the federal share under the existing Federal-Aid Highway Program is usually 80 percent.

Funds Have Been Obligated for Highway Infrastructure in California, and Construction Is Under Way on Two Projects

As we previously reported, California was apportioned \$2.570 billion in March 2009 for highway infrastructure and other eligible projects. As of June 25, 2009, \$1.558 billion had been obligated. The U.S. Department of Transportation has interpreted “obligation of funds” to mean the federal government’s contractual commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement. As of June 25, 2009, \$1.21 million had been reimbursed by FHWA. The state requests reimbursement from FHWA as the state makes payments to contractors working on approved projects.

Of the obligated funds, approximately 65 percent are slated to fund pavement improvement and widening projects, 1 percent are slated to fund bridge replacement and improvement projects, and 34 percent are slated to fund other projects, including safety improvement projects and transportation enhancement projects. (See table 1.) For state-level projects, Caltrans has prioritized State Highway Operation and Protection Program (SHOPP) projects to receive Recovery Act funds. Officials from Caltrans told us that these projects were prioritized because they can be started quickly. The state expects to expend most of its funds in fiscal years 2010-11 and 2011-12. While some Recovery Act funds for highway projects have been obligated for localities, much of the funding has yet to be obligated.

Table 1: Highway Obligations for California by Project Type as of June 25, 2009

Dollars in millions

	Pavement projects			Bridge projects				Total ^b
	New construction	Pavement improvement	Pavement widening	New construction	Replacement	Improvement	Other ^a	
	\$0	\$883	\$136	\$0	\$12	\$3	\$526	\$1,558
Percent of total obligations	0.0	56.6	8.7	0.0	0.7	0.2	33.7	100.0

Source: GAO analysis of Federal Highway Administration data.

^aIncludes safety projects, such as improving safety at railroad grade crossings, and transportation enhancement projects, such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

^bTotal may not add because of rounding.

As of June 11, California had awarded 23 contracts for a total of \$134 million. Of these, two contracts totaling \$71 million have begun construction. The first contract—funded solely with Recovery Act funds—is for a highway rehabilitation project on Interstate 80, located in Solano County (between Sacramento and San Francisco). (See fig. 2.) Construction on the project began in mid-May 2009 and is expected to be substantially completed in October 2009. The second contract will build 3 miles of six-lane freeway on State Route 905 in San Diego County.

Figure 2: Road Rehabilitation on Interstate 80



Removal of debris after demolition of a deteriorated pavement slab.



Placement and consolidation of rapid strength concrete in prepared roadbed.

Source: © 2009 California Department of Transportation.

Caltrans officials indicated that the state's current bidding environment is very competitive and should remain so until the economy rebounds. As of late May, Caltrans was receiving 8 to 10 bids per project, compared to 2 to 4 bids per project prior to the economic downturn. Additionally, Caltrans officials stated that low bids for Recovery Act projects are, on average, 30 percent under engineer estimates, and nearly all contracts are being awarded for less than obligated. For the Interstate 80 project, \$27.7 million was obligated initially, but following a competitive bid process, officials revised the project cost to \$19.6 million.¹² FHWA California Division Office de-obligated about \$8.2 million on June 1, 2009. According to Caltrans officials, the state currently has projects lined up to be funded with de-obligated funds from other projects. As of June 12, 11 projects totaling \$54 million have been approved to use these funds. Despite the difference between the original amount obligated and the revised project cost following the bid process, Caltrans officials stated that they do not plan to change estimating practices because estimations for state-level highway Recovery Act projects are already complete.

California Anticipates Being Able to Meet Requirements for Obligation of Funds, Economically Distressed Areas, and Maintenance of Effort

Funds appropriated for highway infrastructure spending must conform to requirements of the Recovery Act. The states are required to do the following:

- Ensure that 50 percent of apportioned Recovery Act funds are obligated within 120 days of apportionment (before June 30, 2009) and that the remaining apportioned funds are obligated within 1 year.¹³ The Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames.
- Give priority to projects that can be completed within 3 years and to projects located in economically distressed areas (EDA). EDAs are defined by the Public Works and Economic Development Act of 1965, as amended.

¹²The low bid for the project was approximately \$13.4 million. The \$19.6 million obligation includes a construction allotment of \$15.6 million that includes additional funds for unexpected costs plus approximately \$4 million for costs including traffic management, safety enhancement, and other support costs.

¹³The 50 percent rule applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use.

- Certify that the state will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted (referred to as maintenance of effort). As part of this certification, the Governor of each state is required to identify the amount of funds the state planned to expend from state sources as of February 17, 2009, for the period beginning on that date and extending through September 30, 2010.¹⁴

California has met the 120-day obligation requirement. As of June 25, 2009, \$1.189 billion (66 percent) of the \$1.799 billion subject to the 50 percent requirement for the 120-day redistribution had been obligated.¹⁵ Caltrans and FHWA California Division Office officials are confident that the state will also meet the 1-year obligation requirement.

Caltrans officials stated that they do not anticipate difficulty in meeting EDA requirements. Caltrans used unemployment data from January 2009 generated by the state's Employment Development Department and determined that 49 of the state's 58 counties meet the EDA threshold of having an unemployment rate of at least 1 percent more than the national unemployment average.¹⁶ Caltrans officials told us that in selecting projects for funding they first considered how quickly the project could be started and its potential to create or retain jobs. Officials told us that they then considered the extent of need within each EDA.

¹⁴States that are unable to maintain their planned levels of effort will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011. As part of the federal-aid highway program, FHWA assesses the ability of the each state to have its apportioned funds obligated by the end of the federal fiscal year (September 30) and adjusts the limitation on obligations for federal-aid highway and highway safety construction programs by reducing for some states the available authority to obligate funds and increasing the authority of other states.

¹⁵Of the \$2.570 billion California received under the Recovery Act, the act allocates \$1.799 billion (70 percent) to state-level projects and another \$771 million (30 percent) to local projects. According to state sources, under a state law enacted in late March 2009, 62.5 percent of funds (\$1.606 billion) will go to local governments for projects of their selection. Of the remaining 37.5 percent (\$964 million), \$625 million will go to SHOPP projects for highway rehabilitation and eligible maintenance and repair, \$29 million will fund transportation enhancement projects, and \$310 million will be loaned to fund stalled capacity expansion projects. The state law does not change federal obligation requirements under the Recovery Act.

¹⁶Caltrans officials stated that county-level unemployment data generated by the Bureau of Labor Statistics were not sufficiently representative of the current unemployment situation in California because they were based on data from December 2006 through November 2008.

On March 5, California submitted its maintenance of effort certification. As we reported in our April report, California was one of the several states that qualified its certification, prompting the U.S. Department of Transportation to review these certifications to determine if they were consistent with the law. On April 20, 2009, the Secretary of Transportation informed California that conditional and explanatory certifications were not permitted, provided additional guidance, and gave the state the option of amending its certification by May 22, 2009. The department also indicated that California may need to amend the maintenance of effort amount because of the method of calculation and advised the state to resubmit the certification by May 22. The state resubmitted its certification on May 22, without a qualification and with a revised maintenance of effort calculation. According to U.S. Department of Transportation officials, the department has reviewed California's resubmitted certification letter and has concluded that the form of the certification is consistent with the additional guidance. The department is currently evaluating whether the states' method of calculating the amounts they planned to expend for the covered programs is in compliance with DOT guidance. Caltrans officials told us that they do not anticipate difficulty in meeting maintenance of effort requirements.

U.S. Department of Education Recovery Act Funding Will Aid School Districts and Universities

As part of our review of Recovery Act funding supporting K-12 education and institutions of higher education (IHE), we looked at three programs administered by the U.S. Department of Education (Education), specifically, the State Fiscal Stabilization Fund (SFSF); Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA); and the Individuals with Disabilities Education Act (IDEA), Part B & C. During the course of our work, we met with officials at the California Department of Education (CDE) and two school districts—Los Angeles Unified School District (LA Unified) and San Bernardino City Unified School District (San Bernardino Unified). We selected these districts in part because they are among the largest 10 California districts in terms of their ESEA Title I Recovery Act fund allocations, they represent communities of varying size and population, and they have a high percentage of schools in improvement status.¹⁷ Additionally, we met with officials from the state's

¹⁷ESEA Title I requires that local education agencies identify for school improvement any elementary or secondary school that fails, for 2 consecutive years, to make adequate yearly progress as defined in its state's plan for academic standards, assessments, and accountability.

4-year IHEs, specifically, the University of California (UC) and the California State University (CSU) systems.

California State Fiscal Stabilization Funds Are Being Used at the K-12 and University Levels to Help Avert Layoffs

The Recovery Act created the SFSF to be administered by Education. The SFSF provides funds to states to help avoid reductions in education and other essential public services. The initial award of SFSF funding requires each state to submit an application to Education that provides several assurances. These include assurances that the state will meet maintenance of effort requirements (or it will be able to comply with waiver provisions) and that it will implement strategies to meet certain educational requirements, including increasing teacher effectiveness, addressing inequities in the distribution of highly qualified teachers, and improving the quality of state academic standards and assessments. Further, the state applications must contain baseline data that demonstrate the state's current status in each of the assurances. States must allocate 81.8 percent of their SFSF funds to support education (education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (government services funds). After maintaining state support for education at fiscal year 2006 levels, states must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to school districts or public IHEs. When distributing these funds to school districts, states must use their primary education funding formula but maintain discretion in how funds are allocated to public IHEs. In general, school districts maintain broad discretion in how they can use stabilization funds, but states have some ability to direct IHEs in how to use these funds.

As of June 18, 2009, California had received about \$3.99 billion in SFSF funds, of its total \$5.96 billion allocation for SFSF. About \$3.27 billion of this amount for education stabilization and about \$727 million is for government services, which the Governor has proposed to be directed to public safety, specifically, corrections. Based on the state's current application, the state will allocate about 75 percent of the education stabilization funds to school districts and about 25 percent to IHEs. As of June 18, 2009 California has made \$2.5 billion available to school districts and \$323 million available to IHEs. As of June 18, districts had not obligated funding, and IHEs had obligated \$323 million. As part of a state's application for SFSF funds, it must include an assurance that the state will maintain support for education from fiscal year 2009 through fiscal year 2011 at least at the level it did in fiscal year 2006. California's application made this assurance.

The CDE had allocated a total of approximately \$2.57 billion of its education stabilization funds to support K-12 school districts. For the school districts that we visited, LA Unified was allocated about \$359.4 million in education stabilization funds, and San Bernardino Unified was allocated \$22.3 million. On our visits to LA Unified and San Bernardino Unified, officials told us that the K-12 education stabilization funds will be used to preserve jobs and services rather than start new programs. For example, LA Unified officials said they hope to reduce the number of layoffs by about 4,600 with the education stabilization funds. However, district officials recognize that if state budget conditions do not improve, they may face even more severe issues after education stabilization funds are used up. San Bernardino Unified officials told us that they were also struggling with budget shortages and potential teacher layoffs. However, San Bernardino Unified teachers and other staff have agreed to sacrifice several days pay through voluntary furloughs to save 72 jobs. District officials said they hope that the education stabilization funds along with retirements, normal staff attrition, and other cost saving efforts will allow them to retain 94 more positions. However, they are concerned that further budget cuts are forthcoming because of the continued deterioration of the state's fiscal condition.

The \$537 million of education stabilization funds allocated to higher education was divided equally between the UC and the CSU systems, with \$268.5 million allocated to each system.¹⁸ UC and CSU officials told us that the funds will be used during the current fiscal year to help pay salaries at their universities. They said that at CSU, monthly payroll runs about \$290 million, so the education stabilization funds will pay for almost 1 month's payroll. As of May 29, the CSU system had drawn down \$130 million for payroll for May. CSU officials expected to draw down the remaining funds by June 30 for payroll. The CSU officials stated that using the funds in this way allowed them to partially mitigate the impact of anticipated cuts to their state general funds and help avert layoffs. Because the proposed cuts came so late in the fiscal year, officials said that if they had to make up for the reductions by tuition fee increases alone, tuition would have been increased far more than the approved 10 percent increase for school year 2009-10. CSU officials noted that the lead time needed to plan their enrollment, along with the state guarantee that a certain percentage of qualified graduating high school seniors be accepted

¹⁸These two systems comprise multiple university campuses—UC with 10 campuses and CSU with 23.

at CSU, restricted their ability to reduce enrollment levels for the immediate future. UC officials said that they would use all of their \$268.5 million to help pay salaries at their universities and would help avert layoffs. In addition a senior budget official said that if this funding were not provided and fee increases were used to cover the shortfall, an additional 15 percent increase in mandatory systemwide fees would have been required on top of the approved 9.3 percent increase. This would have led to a 24.3 percent increase in one year.

California's initial allocation to higher education did not include any funds for the community college system because its budget had not been as severely cut as those for 4-year institutions. However, the worsening state economic conditions have caused the Governor to propose increased budget cuts to the community college system. As a result, the state may revise the higher education funds allocation to include the community college system if the proposed budget cuts are enacted.

School Districts We Visited Have Preliminary Plans for ESEA Title I, Part A, Funds

The Recovery Act provides \$10 billion to help local education agencies (LEA) educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A, of ESEA of 1965. The Recovery Act requires these additional funds to be distributed through states to LEAs using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, LEAs are required to comply with current statutory and regulatory requirements, and must obligate 85 percent of their fiscal year 2009 funds (including Recovery Act funds) by September 30, 2010.¹⁹ Education is advising LEAs to use the funds in ways that will build their long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers. Education made the first half of states' ESEA Title I, Part A, funding available on April 1, 2009, with California receiving \$562 million of its approximately \$1.1 billion total allocation. As of June 12, 2009, CDE had drawn down about \$450 million.²⁰ For the two school districts that we visited, LA

¹⁹School districts must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A, funds by September 30, 2010, unless granted a waiver, and all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

²⁰As discussed later in the report, CDE has been cited in the Single Audit report and by Education's Office of Inspector General for weaknesses in its cash management system—including for ESEA Title I.

Unified was allocated \$312 million and San Bernardino Unified was allocated \$15.8 million. At the time of our review, an LA Unified official reported the district had received \$140.6 million and an official from San Bernardino Unified said the district had received \$7.1 million.

LA Unified and San Bernardino Unified officials told us they have preliminary plans for the Title I funding their schools will receive. LA Unified officials said they are planning to encourage schools to, for example, pursue efforts to reduce class size by rescinding teacher lay off notices, add coaches for teachers, and acquire special programs based on individual school needs. A San Bernardino Unified official said the district plans to use their funds to help finance implementation of recommendations in recent capacity study and a district improvement plan required by the CDE. These recommendations include support for learning centers at schools, more coaching for teachers, and monitoring individual students on a weekly basis.

CDE and school districts we visited plan to seek waivers from Education on the use of ESEA Title I funds.²¹ CDE officials said they will probably request a waiver to allow school districts to carry funds over to the next fiscal year. LA Unified officials said they plan to ask for waivers to increase their flexibility in the use of Recovery Act funds. According to these officials, a carryover waiver would help the district meet spending requirements. San Bernardino Unified officials said they plan to seek a waiver for the transportation for public school choice requirement and for the maintenance of effort requirement if future budget decreases make it necessary.

Both CDE and district officials continue to voice concerns about the lack of specific guidance, particularly regarding reporting on their use of ESEA

²¹Education will consider waiving the following requirements with respect to Recovery Act Title I funds: (1) a school in improvement's responsibility to spend 10 percent of its ESEA Title I funds on professional development; (2) a school district in improvement's responsibility to spend 10 percent of its ESEA Title I, Part A, Subpart 2, allocation on professional development; (3) a school district's obligation to spend an amount equal to at least 20 percent of its ESEA Title I, Part A, Subpart 2, allocation on transportation for public school choice and on supplemental education services such as tutoring; (4) a school district's responsibility to calculate the per-pupil amount for supplemental education services based on the district's fiscal year 2009 ESEA Title I, Part A, Subpart 2, allocation; (5) the prohibition on a state education agency's ability to grant to its districts waivers of the carryover limitation of 15 percent more than once every 3 years; and (6) the ESEA Title I, Part A, maintenance of effort requirements.

Title I funds. CDE officials said that the only guidance they were providing to districts was what had been issued by Education. They said they do not want to issue their own guidance on acceptable uses of funds and then find out that these uses do not meet Education's guidance. Officials in both districts said that they were apprehensive about interpreting what they characterized as the general guidance they had received, and then finding out at a later date that CDE or Education had interpreted it differently.

School Districts We Visited Plan to Use IDEA Part B Funding to Help Increase Capacity, but California Does Not Plan to Apply for Part C Funding

The Recovery Act provided supplemental funding for programs authorized by Parts B and C of IDEA, the major federal statute that supports special education and related services for infants, toddlers, children, and youth with disabilities. Part B includes programs that ensure that preschool and school-aged children with disabilities have access to a free and appropriate public education, and Part C programs provide early intervention and related services for infants and toddlers with disabilities or at risk of developing a disability and their families. IDEA funds are authorized to states through three grants—Part B preschool-age, Part B school-age, and Part C grants for infants and families. States were not required to submit applications to Education in order to receive the initial Recovery Act funding for IDEA, Part B & C (50 percent of the total IDEA funding provided in the Recovery Act). States will receive the remaining 50 percent by September 30, 2009, after submitting information to Education addressing how they will meet Recovery Act accountability and reporting requirements. All IDEA Recovery Act funds must be used in accordance with IDEA statutory and regulatory requirements.

Education allocated the first half of states' IDEA allocations on April 1, 2009, with California receiving a total of \$661 million for all IDEA programs. The largest share of IDEA funding is for the Part B school-aged program for children and youth. The state's initial allocation was

- \$21 million for Part B preschool grants,
- \$613 million for Part B grants to states for school-aged children and youth, and
- \$27 million for Part C grants to states for infants and families for early intervention services.

CDE has allocated funds through Local Assistance and Preschool grants to 125 special education local planning areas based on a federal three-part formula that considers 1999 special education enrollment, population (K-

12 enrollment public and private), and poverty (free and reduced meal counts K-12). Table 2 highlights how these funds were allocated at the districts we visited. District officials told us at the time of our visits, in May 2009, that CDE had issued IDEA grant award letters but had not transferred any funds to the two districts we visited.

Table 2: IDEA Fund Allocations for the Two School Districts We Visited

Dollars in millions

School district allocations	LA Unified	San Bernardino Unified
Part B – Preschool Local Entitlement	\$12.66	\$0.31
Part B – Special Education Preschool Grant	4.94	0.39
Part B – Local Assistance	133.98	11.34
Total	\$151.58	\$12.04

Source: CDE Recovery Act Web site.

Officials in both districts said they plan to use funds to hire coaches or other specialists who will help teachers and assistants increase their skills in meeting the special needs of children with disabilities. District officials said these uses are consistent with the goal of not creating an unsustainable program, because the coaches or specialists will be temporary positions that will expire when Recovery Act funds are spent. However, the skills learned will continue paying dividends for a long time after the funding has ceased.

The Department of Developmental Services administers IDEA Part C in California and is not requesting any IDEA Part C incentive funds to expand the state’s Part C program, which currently serves children up to age 3, to serve children up to age five. According to the state’s Part C Coordinator, the cost to expand the current statewide program to include children up to age five has been estimated at around \$300 million. Yet, the Coordinator said that only about \$14 million in Recovery Act funds are potentially available to the state to fund such an expansion. Nevertheless, the Coordinator has asked Education if it is possible to fund the expansion on a pilot basis only in region-specific programs; if this is allowed, the state may need to reconsider its decision not to seek Part C funds.

California Is Finalizing Plans for an Expected \$186 Million in Weatherization Assistance Program Funds

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, administered by the U.S. Department of Energy (DOE) through each of the states and the District of Columbia.²² This funding is a significant addition to the annual appropriations for the weatherization program that have been about \$225 million per year in recent years. The program is designed to reduce the utility bills of low-income households by making long-term energy efficiency improvements to homes by, for example, installing insulation, sealing leaks around doors and windows, or modernizing heating and air conditioning equipment. During the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. According to DOE, by reducing the utility bills of low-income households instead of offering aid, the Weatherization Assistance Program reduces their dependency by allowing these funds to be spent on more pressing family needs.

DOE allocates weatherization funds among the states and the District of Columbia, using a formula based on low-income households, climate conditions, and residential energy expenditures by low-income households. DOE required each state to submit an application as a basis for providing the first 10 percent of Recovery Act allocation. DOE will provide the next 40 percent of funds to a state once the department has approved its state plan, which outlines, among other things, its strategy for using the weatherization funds, metrics for measuring performance, and risk mitigation strategies. DOE plans to release the final 50 percent of the funding to each state based on the department's progress reviews examining each state's performance in spending its first 50 percent of the funds and the state's compliance with the Recovery Act's reporting and other requirements.

DOE has allocated about \$186 million in total Recovery Act funds for California for the Weatherization Assistance Program for a 3-year period. California sent its application to DOE on March 31, 2009, and on April 1, 2009, DOE provided an initial 10 percent allocation, or about \$18.6 million, in Weatherization Assistance Program funds to California, which the state will use to "ramp up" the program, including training and equipment

²²DOE also allocates funds to Indian tribes and U.S. territories (American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands).

purchases.²³ According to DOE, the initial funding could not provide for actual physical weatherization. However, on June 9, 2009, DOE issued revised guidance lifting this limitation to allow states to provide funds for production activities to local agencies that previously provided services and are included in the state Recovery Act plans. California's Department of Community Services and Development (CSD), the responsible state agency, developed a plan for the use of the Weatherization Assistance Program funds that was submitted to DOE on the May 12 deadline. California officials received the Recovery Act guidance to use in developing their plan and expected a quick review of their application. On June 18, the state announced that its weatherization plan was approved, and DOE provided an additional \$74.3 million.

The California state plan and application for Recovery Act funds estimated that 50,080 units will be weatherized and 250 units will be re-weatherized under the program, for a total of 50,330 units. The state plan and application also projected the creation of 1,017 administration and field jobs for the Recovery Act program. California's state plan shows that of the approximately \$186 million, \$18.6 million will be used for program administration and \$32.5 million will be used for training and technical assistance.

CSD plans to use its existing network of Weatherization Assistance Program subgrantees to provide services under the Recovery Act. The 2009 funding for DOE weatherization in California is about \$14.1 million, so Recovery Act funds represent over a 13-fold increase. According to testimony provided by the Director of CSD before a state legislative committee on May 13, 2009, CSD and its subgrantees have the capacity to administer the funds provided by the Recovery Act. CSD elected to administer all Weatherization Assistance Programs through the existing network that it uses for its Low-Income Home Energy Assistance Program. This subgrantee network comprises community action agencies or public or private nonprofit agencies that have many years of experience providing public assistance programs to the low-income clientele in their respective communities. According to the Director of CSD, the subgrantees are already geared up to handle the larger Low-Income Home

²³The California Department of Finance approved the use of these initial funds for program administration, and the California Joint Legislative Budget Committee approved \$10 million in expenditures for the current fiscal year. The \$10 million includes \$1.5 million to support state activities and \$8.5 million for local support. The remaining \$8.6 million will be expended in California's fiscal year 2009-10.

Energy Assistance Program, based on their prior experience managing the program, and should be able to handle the Weatherization Assistance Program as well. Additionally, CSD officials reported that they are not concerned about identifying eligible recipients since they can currently only serve about 1 in 10 eligible applicants. CSD officials told us that there is an extensive waiting list of eligible applicants.

California Is Planning to Use WIA Youth Recovery Act Funds to Provide Summer Youth Employment Activities

The Recovery Act provides an additional \$1.2 billion in funds nationwide for the Workforce Investment Act (WIA) Youth program to facilitate the employment and training of youth. The WIA Youth program is designed to provide low-income in-school and out-of-school youth ages 14 to 21, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. The Recovery Act extended eligibility through age 24 for youth receiving services funded by the act. In addition, the Recovery Act provided that of the WIA Youth performance measures, only the work readiness measure is required to assess the effectiveness of summer only employment for youth served with Recovery Act funds. Within the parameters set forth in federal agency guidance, local areas may determine the methodology for measuring work readiness gains. The program is administered by the U.S. Department of Labor, and funds are distributed to states based upon a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving up to 15 percent for statewide activities. The local areas, through their local workforce investment boards, have flexibility to decide how they will use these funds to provide required services. In the conference report accompanying the bill that became the Recovery Act,²⁴ the conferees stated that they were particularly interested in states using these funds to create summer employment opportunities for youth. Summer employment may include any set of allowable WIA Youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as it also includes a work experience component. Work experience may be provided at public sector, private sector, or nonprofit work sites. The work sites must meet safety guidelines and federal/state wage laws.²⁵

²⁴H.R. Rep. No. 111-16, at 448 (2009).

²⁵Current federal wage law specifies a minimum wage of \$6.55 per hour until July 24, 2009, when it becomes \$7.25 per hour. Where federal and state law have different minimum wage rates, the higher standard applies.

California received about \$187 million in Recovery Act funds for its WIA Youth program. On April 7, the state announced that it was distributing the remaining funds—about \$159 million after reserving 15 percent for statewide activities—to local areas not later than 30 days after being available, as required. As of June 30, about 4 percent of California’s Recovery Act WIA Youth funds had been spent, and about 89 percent obligated. We visited two local areas, Los Angeles and San Francisco, the former with a long-established summer program funded from local sources and the latter now establishing a program with Recovery Act funds (see table 3).

Table 3: Description of WIA Youth Programs GAO Reviewed

	City of Los Angeles	City and County of San Francisco
Recovery Act WIA funding allocation	\$20.3 million	\$2.3 million
Planned allocation for WIA Youth summer programs	\$13.1 million	\$1.0 million
Number of expected WIA summer program participants	6,550	450
Anticipated length of WIA Youth summer program	6-8 weeks – 3 phases from May through September	6-8 weeks
Plan to hire additional staff to administer program	No	Yes

Sources: California Employment Development Department, Los Angeles Community Development Department, and San Francisco Office of Economic and Workforce Development.

Note: Recovery Act WIA funding figures are from the California Employment Development Department. All other figures are from the Los Angeles Community Development Department and San Francisco Office of Economic and Workforce Development.

While the WIA Youth program requires a summer employment component to be included in its year round program, Labor has issued guidance indicating that local areas have the program design flexibility to implement stand alone summer youth employment activities with Recovery Act funds. Local areas may design summer employment opportunities to include any set of allowable WIA Youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as it also includes a work experience component. Accordingly, California Employment Development Department (EDD) officials told us that local areas are free to determine how much of these funds to spend on summer programs and how many participants to target. EDD officials remarked that based on their understanding of the congressional intent of the Recovery Act and Department of Labor guidance, their goal is for the local areas to spend

the majority of funds during the summer of 2009. They added that the 15 percent that can be retained for statewide activities is unlikely to be used for summer programs, although the state is still determining where to focus it. The California Workforce Association, a nonprofit membership organization that represents all the state's local workforce investment boards, estimates that over 47,000 youth will participate in Recovery Act-funded summer employment activities across the state in 2009.

State and local officials we contacted do not anticipate challenges identifying enough summer program participants. State officials also told us that the local areas' existing WIA partnerships with community-based youth service organizations providing year-round activities will mitigate the challenges of running a stand-alone summer program for the first time in a decade. State officials said that local boards could meet their requirement to include a summer youth employment component in the WIA program by extending the regular youth program a few weeks into the summer rather than have a stand-alone youth component.²⁶ Although officials expect a majority of the summer jobs to be in the public sector, a state official added that in light of the economy, they are concerned about locating enough employment opportunities because many local government agencies have currently implemented hiring freezes and may, therefore, need to take additional steps to secure the authority to add temporary positions. Los Angeles officials told us that they do not anticipate problems locating employment opportunities because they have historically had a surplus of work sites, nor do they believe that they need to advertise opportunities because of existing high demand for them.

Unlike San Francisco, which is developing a new summer youth employment program, Los Angeles already has a large program that is funded through various local sources, including the city's general fund. Los Angeles officials told us that the overall youth program currently serves 12,347 year-round participants. Therefore, the infrastructure, processes, and contracts with summer youth service providers are already in place. San Francisco officials told us that the city and its service

²⁶According to EDD officials, the Job Training Partnership Act, which WIA replaced about 10 years ago, funded a stand alone summer youth program. They explained that some local areas have continued to run self-funded summer programs, however, local areas have not typically placed an emphasis on these activities nor operated summer programs in isolation from other youth services.

providers are in the process of developing work sites—about one-third are already in place, according to officials.²⁷

California Has Received JAG Program Funds and Is Finalizing Plans for the Funds

The Edward Byrne Memorial Justice Assistance Grant (JAG) Program within the Department of Justice's Bureau of Justice Assistance (BJA) provides federal grants to state and local governments for law enforcement and other criminal justice activities, such as crime prevention and domestic violence programs, corrections, treatment, justice information sharing initiatives, and victims' services. Under the Recovery Act, an additional \$2 billion in grants are available to state and local governments for such activities, using the rules and structure of the existing JAG program. The level of funding is formula based and is determined by a combination of crime and population statistics. Using this formula, 60 percent of a state's JAG allocation is awarded by BJA directly to the state, which must in turn allocate a formula-based share of those funds to local governments within the state. The remaining 40 percent of funds is awarded directly by BJA to local governments within the state.²⁸ The total JAG allocation for California state and local governments under the Recovery Act is about \$225.4 million, a significant increase from the previous fiscal year 2008 allocation of about \$17.1 million.

As of June 15, 2009, California has received its full state award of about \$135 million. An additional \$89 million will be made available directly to local governments from BJA through the local solicitation for a total of about \$225 million. The amount of JAG money awarded to California has been sharply reduced in the last few years. Officials with the California Emergency Management Agency (CalEMA), the state's administering agency, said that they believe the Recovery Act funds will help restore lost opportunities and provide jobs in law enforcement.

CalEMA officials said that they will be providing over 90 percent of the \$135.6 million to local law enforcement agencies. (They are required to provide at least 67.34 percent to local governments under Department of

²⁷San Francisco's existing network of youth program employers includes 250 nonprofit, community-based organizations and 27 city departments. Local officials estimate that about one-fifth of San Francisco's 2009 summer opportunities will be with private sector employers.

²⁸We did not review these funds awarded directly to local governments in this report because the Bureau of Justice Assistance's solicitation for local governments closed on June 17.

Justice guidelines.) According to California's application to the Department of Justice,

- \$122 million is to be allocated to local units of government and the state Bureau of Narcotics Enforcement to implement multi-jurisdictional task forces,
- \$11.4 million is to be allocated to local units of government and state law enforcement agencies to implement innovative new programs or enhance exiting programs to address emerging drug and crime trends (several programs are under consideration), and
- \$2 million is to be allocated to CalEMA as the state's administrative agency to pay for personnel, benefits, and overhead to administer the JAG program under the Recovery Act.²⁹

According to the Department of Justice application for JAG money, states are strongly encouraged to develop and undertake a strategic planning process using a community-based engagement model in order to guide JAG spending under the Recovery Act and future fiscal year allocations. According to CalEMA officials, California's expenditure plan for use of the JAG funds provided by the Recovery Act was still in draft form as of June 30, 2009. The statewide expenditure plan has been approved by the California Council on Criminal Justice but has not yet been approved by the state legislature. As a result, CalEMA officials said that their final dollar amounts are not yet associated with each proposed project. A CalEMA official stated that the legislature can make changes to the planned use of funds associated with individual projects and may look toward retaining more funds at the state level. Once approved, all spending under the JAG program is expected to be in accordance with the statewide strategic plan and with the White House Office of National Drug Control Policy.

²⁹ According to the Department of Justice application for the JAG money, a state administering agency may use up to 10 percent of the state award, including up to 10 percent of any accrued interest, for costs associated with administering JAG funds.

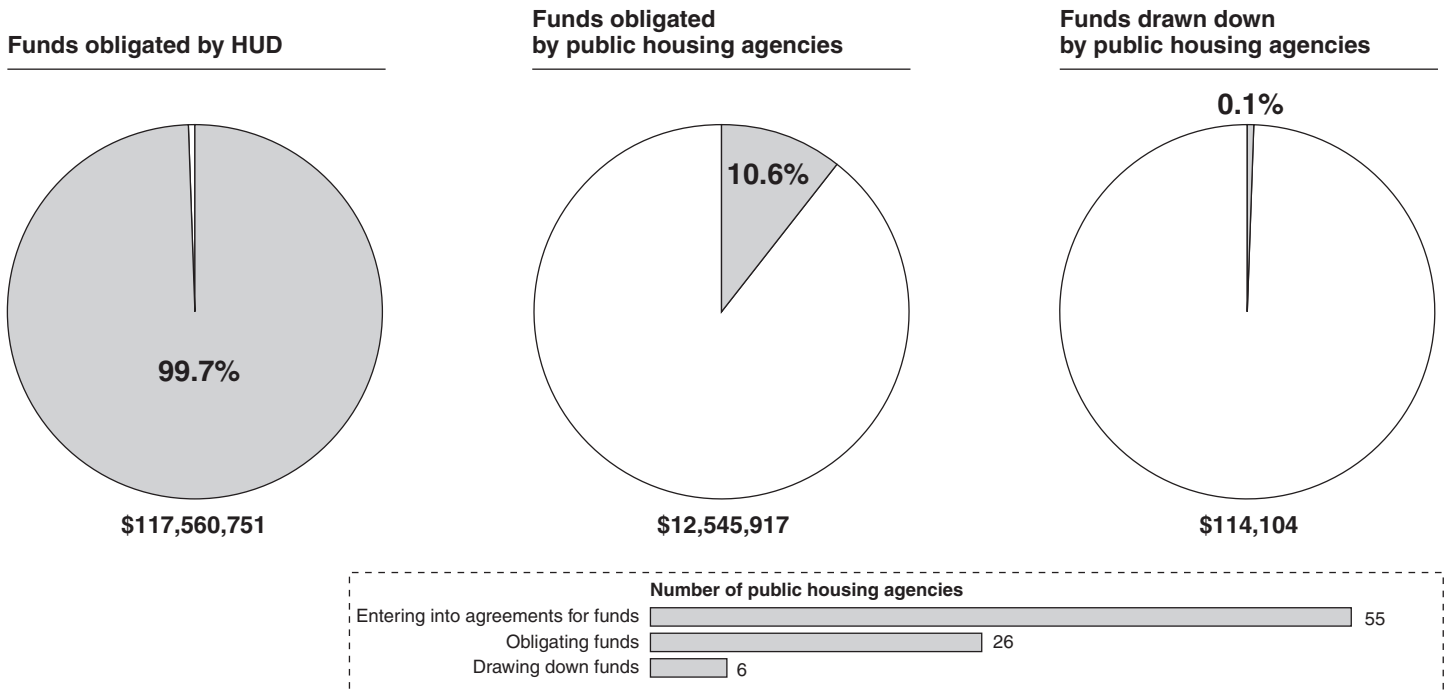
Most California Public Housing Capital Grant Funding Has Not Been Spent

The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.³⁰ The Recovery Act requires the U.S. Department of Housing and Urban Development (HUD) to allocate \$3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. Recovery Act requirements specify that public housing agencies must obligate funds within 1 year of the date they are made available to public housing agencies, expend at least 60 percent of funds within 2 years of that date, and expend 100 percent of the funds within 3 years of that date. Public housing agencies are expected to give priority to projects that can award contracts based on bids within 120 days from the date the funds are made available, as well as projects that rehabilitate vacant units, or those already under way or included in the required 5-year capital fund plans. HUD is also required to award \$1 billion to housing agencies based on competition for priority investments, including investments that leverage private sector funding for renovations and energy conservation retrofit investments. On May 7, 2009, HUD issued its Notice of Funding Availability, which describes the competitive process, criteria for applications, and time frames for submitting applications.³¹ As shown in figure 3, California has 55 public housing agencies that have received Recovery Act formula grant awards. In total these public housing agencies received \$117.56 million from the Public Housing Capital Fund formula grant awards. As of June 20, 2009, 26 public housing agencies have obligated \$12.55 million and have expended \$114,104.

³⁰Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

³¹HUD released a revised Notice of Funding Availability for competitive awards on June 3, 2009. The revision included changes and clarifications to the criteria and time frames for application and to funding limits.

Figure 3: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in California



Source: GAO analysis of HUD data.

Note: HUD allocated Capital Fund formula dollars from the Recovery Act to one additional public housing agency in California, but the housing agency either chose not to accept Recovery Act funding or no longer had eligible public housing projects that could utilize the funds. As a result, these funds have not been obligated by HUD.

GAO visited three public housing agencies in California: Area Housing Authority of the County of Ventura, Sacramento Housing and Redevelopment Agency, and San Francisco Housing Authority.³² These public housing agencies received capital fund formula grants totaling \$25.61 million. As of June 20, 2009, these public housing agencies had obligated \$4.61 million, or 18.01 percent of the total award. They had drawn down \$9,500, or 0.04 percent of the total award.

³²We selected these agencies based on the amounts of Recovery Act funds that were drawn down, our intention to follow up with the agency that we met with for our prior report, and other risk-based factors, such as San Francisco's troubled performer designation by HUD.

The Area Housing Authority of the County of Ventura³³ is the first public housing agency in California to draw down funds from HUD. Officials from the Ventura housing authority told us that they drew down \$9,500 on May 1, 2009, and obligated funds for architectural and engineering consulting expenditures. Ventura housing officials prioritized projects from those already included in their 5-year Capital Fund plan that could be awarded contracts based on bids within 120 days of funds being made available. They told us that they plan to use all of their allocated \$614,448 in Recovery Act funds to replace and install energy-efficient windows in their five public housing projects, which consist of 270 units.³⁴ The window replacements will enable both the housing authority and tenants to save money because of increased energy efficiency (see fig. 4). For the two of public housing projects we visited, officials estimated that work will begin in August 2009 and be completed in November 2009. Because of the small amount of Recovery Act funds received, and the straightforward nature of their projects, they do not foresee any issues related to the use of funds or implementation of their Recovery Act program.

Sacramento Housing and Redevelopment Agency³⁵ officials told us that they were allocated \$7.12 million in capital funds, which are ready to be drawn down from HUD. Officials told us that they prioritized projects in their 5-year capital fund plan, have several contracts out to bid, and expect to award contracts within 120 days from the date the funds were made available to them. They plan to use Recovery Act funds on 17 projects for 602 units. Plans for initial work include architectural and engineering work in early June 2009 on 41 of their vacant units. Recovery Act funding will be used mostly for exterior rehabilitation, such as painting and roofing work, which officials told us is needed and can create more jobs for contractors

³³The Area Housing Authority of the County of Ventura is an independent, nonprofit agency serving the residents of Camarillo, Fillmore, Moorpark, Ojai, Simi Valley, Thousand Oaks, and the unincorporated areas of Ventura County. The Area Housing Authority is governed by a 15-member Board of Commissioners.

³⁴Ventura housing does not have any vacant units.

³⁵The Sacramento Housing and Redevelopment Agency is a Joint Powers Authority created by the City and County of Sacramento to represent both jurisdictions for affordable housing and community redevelopment needs. The agency serves as the housing authority for the City and County of Sacramento and oversees residential and commercial revitalization activities in 14 redevelopment areas throughout the city and county. The agency has a fiscal year 2009 budget of \$294 million and approximately 291 employees. The agency owns and manages 3,144 units of public housing and is one of the largest landlords in Sacramento. The agency also administers approximately 11,000 rental assisted vouchers per month.

and subcontractors. Sacramento housing officials told us that for two of the public housing projects that we visited, they are leveraging Recovery Act funding with non-Recovery Act capital funds. For example, an elderly-only property will rely on Recovery Act funding for 75 percent of its funding. The two projects are estimated to be completed in November/December of 2009.

San Francisco Housing Authority³⁶ officials told us that they are waiting for HUD approval of the obligation submitted and are not yet able to draw down their capital fund allocation of \$17.87 million from HUD's ELOCCS. According to these officials, they are designated as a troubled performer under HUD's Public Housing Assessment System and are therefore required to submit additional documentation and obtain HUD approval before they are able to draw down Recovery Act funds.³⁷ Officials stated that they planned to use Recovery Act funds to fill critical financing gaps for 10 large public housing projects, which consist of 191 vacant units. They anticipate using Recovery Act funding for structural, exterior, and interior rehabilitation, such as painting, roofing, carpeting, and repairing electrical fixtures (see fig. 4). Additionally, in selecting public housing projects officials prioritized projects in their 5-year Capital Fund plan, those identified with high needs in their physical needs assessments, and feedback from their property management and resident advisory board. If they are able to draw down Recovery Act funding from HUD soon, most of their projects are estimated to begin by July 2009, and are estimated to be completed within 90 to 150 calendar days.

³⁶The San Francisco Housing Authority is the oldest housing authority in California. While the Mayor appoints the seven members of the authority's Board of Commissioners, the authority is an independent, state-chartered corporation. Two commissioners are authority residents who represent the families, seniors, and disabled persons who are residents. The Board of Commissioners appoints an executive director to lead the authority workforce of more than 400 employees in various executive, administrative, and craft occupations.

³⁷HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of the housing agencies' public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring. HUD designated the San Francisco Housing Authority as troubled performer because of its score of less than 60 percent in the physical condition of its housing units.

Figure 4: Public Housing Project Rehabilitations Using Recovery Act Funding



Kitchen rehabilitation to be started in San Francisco.



Window soon to be replaced with energy-efficient, double-pane windows in Ventura.

Source: GAO.

California Is Implementing Plans for Tracking and Oversight of Recovery Act Funds

California's Recovery Task Force (Task Force), which has overarching responsibility for ensuring that California's Recovery Act funds are spent efficiently and effectively, intends to use California's existing internal control and oversight structure, with some enhancements, to maintain accountability for Recovery Act funds. State agencies, housing agencies, and other local Recovery Act funding recipients we interviewed told us that using separate accounting codes within their existing accounting systems will enable them to effectively track Recovery Act funds. However, officials told us that accumulating this information at the statewide level will be difficult using existing mechanisms. The state, which is currently relying on lengthy manually updated spreadsheets, is awaiting additional Office of Management and Budget (OMB) guidance to design and implement a new system to effectively track and report statewide Recovery Act funds. Most state and local program officials told us that they will apply existing controls and oversight processes that they currently apply to other program funds to oversee Recovery Act funds.

State Agencies and Other Fund Recipients Do Not Anticipate Problems Establishing Separate Accounting Codes within Existing Systems to Track Recovery Act Funds, but Subrecipient Capabilities Are Unknown

State agencies, housing agencies, and other local Recovery Act funding recipients that we spoke with plan to use, or are already using, separate accounting codes to track Recovery Act funds. Agencies we spoke with did not anticipate any problems with tracking their Recovery Act funds. For example, all three housing agencies we visited told us that they are capable of separately identifying and tracking Recovery Act funds. Similarly, state and local officials responsible for the WIA Youth program told us that using Recovery Act codes in their existing accounting systems will enable them to track Recovery Act-funded programs separately from previously existing programs. CSD officials said the same about their ability to use separate codes to track Recovery Act Weatherization Assistance Program funds within their accounting system. Additionally, CalEMA officials also told us that they plan to use a separate code for JAG money received under the Recovery Act and will continue to monitor the spending rate and obligation of funds for all grantees and subgrantees, including Recovery Act fund recipients, using CalEMA's existing systems.

Both Caltrans and CDE officials told us that they would be able to track Recovery Act funds at the state level using separate accounting codes assigned for Recovery Act funds. According to Caltrans officials, the ability of local agencies to track federal funds separately is assessed during the pre-award audit process; however, the extent to which local entities actively track Recovery Act highway infrastructure funds separately is unknown.³⁸ Officials from the City of Seaside stated that its Del Monte Boulevard pavement rehabilitation project will be easy to separately track because it is being funded solely by Recovery Act funds.

According to CDE, school districts, and higher education officials, tracking of funds will be conducted through existing accounting systems using separate Recovery Act accounting codes. While officials from the two school districts that we visited did not foresee any problems tracking Recovery Act funds, there are about 1,000 other California school districts that may receive Recovery Act funds that according to CDE officials, possess varying levels of sophistication in their accounting systems. CDE officials reported that all of these entities will be monitored using existing mechanisms, and they will report quarterly and annually on the use of the funds. However, there are some concerns about LEAs' ability to meet Recovery Act reporting requirements. For example, CDE's Deputy

³⁸Local entities will receive \$1.606 billion for projects of their selection, and how they will track these Recovery Act funds varies by locality.

Superintendent recently sent written comments to OMB raising concerns over the timing and the extent of information on the quarterly reporting required by section 1512 of the Recovery Act. Specifically, this section requires each recipient that receives Recovery Act funds to submit quarterly reports within 10 days after the end of the quarter that include

- the total amount of Recovery Act funds received from that agency;
- the amount of Recovery Act funds received that were expended or obligated to projects or activities;
- a detailed list of all projects or activities for which Recovery Act funds were expended or obligated; and
- detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Pub. L. No. 109-282), allowing aggregate reporting on awards below \$25,000 or to individuals, as prescribed by the Director of OMB.

According to CDE officials, at issue is whether the school districts have the ability to prepare accurate and timely reports on this type of information on a quarterly basis.

State Will Need New System to Effectively Track and Report Statewide Recovery Act Funds

Because California does not have a central accounting system with the capacity to track and report Recovery Act funds across agencies, the state is currently relying on a lengthy spreadsheet to manually accumulate Recovery Act funding information. The spreadsheet is periodically sent to Task Force members, who represent the various state agencies, to update with current information; the Department of Finance program budget managers subsequently verify the submitted information.³⁹ Task Force members and the office of the state's Chief Information Officer acknowledged that the spreadsheet is not an ideal means with which to account for statewide Recovery Act funds. The state issued a request for proposal on June 10 to purchase a database system that can track and report state Recovery Act funds. However, because data and reporting requirements provided by OMB could change, the request for proposal incorporates additional OMB guidance by reference. State officials plan to

³⁹The Task Force includes one representative from the administration for each of the state's main program areas through which the federal funding will flow, including: health and human services, transportation, housing, energy, environment/water quality, general government, education, labor, and broadband.

have the new system in place in time for the first report due to OMB in October 2009.

California Plans to Use Its Existing Internal Control and Oversight Structure, with Some Enhancements, to Maintain Accountability for Recovery Act Funds at the Statewide Level

As mentioned in our April report, the Task Force was established by the Governor to track Recovery Act funds that come into the state and ensure that those funds are spent efficiently and effectively.⁴⁰ The Task Force intends to rely on California's existing internal control framework to oversee Recovery Act funds, supplemented by additional oversight mechanisms. Several agencies and offices play key roles in overseeing state operations and helping ensure material compliance with state law and policy. The key agencies and their oversight and compliance roles are summarized below.

- **The Department of Finance** has general powers of supervision over all matters concerning the state's financial policies. The department is responsible for maintaining the state's uniform accounting system and providing directives to other departments regarding accounting procedures and reporting requirements. Within the department is the Office of State Audits and Evaluations (OSAE), which is responsible for internal controls at the state level. This includes compliance with the state's Financial Integrity and State Manager's Accountability Act of 1983 (FISMA),⁴¹ which was enacted to reduce wasted resources and to strengthen accounting and administrative control.
- **The State Controller's Office**, the state's primary accounting and disbursing office maintains central accounts for each appropriation for all funds operating through the state treasury and provides monthly reports to departments to reconcile accounts. The office also audits claims for payments submitted by state agencies and provides internal audit services to some state agencies, such as Caltrans, for Recovery Act funds. It is also the state's repository for local and subrecipient Single Audit Act audits (Single Audits), which the State Controller's Office annually compiles and distributes to the responsible state agency.

⁴⁰The Task Force is also charged with working with the President's administration; helping cities, counties, nonprofits, and others access the available funding; and maintaining a Web site (www.recovery.ca.gov) that contains updated information about California's Recovery Act funds.

⁴¹Cal. Gov't Code § 13400–13407.

- **The Recovery Act Inspector General** was appointed on April 3, 2009, by the Governor to ensure that Recovery Act funds are spent as intended and identify instances of waste, fraud, and abuse. California's Recovery Act Inspector General is currently assessing the state's oversight needs, educating state officials and the public on her role—which includes conducting and reviewing audits—and helping integrate existing state and local oversight activities.
- **The State Auditor** is California's independent auditor who conducts the statewide Single Audit, a combined independent audit of the state's financial statement and state programs receiving federal funds.⁴² The State Auditor also conducts performance audits as requested and approved by the California Joint Legislative Audit Committee or as mandated in statute.

To help carry out its charge of transparency, the Task Force is managing California's recovery Web site (www.recovery.ca.gov), the state's principal vehicle for reporting on the use and status of Recovery Act funds. In addition, in June 2009 the Governor signed an executive order to improve the transparency over state funds, including Recovery Act funds, by making all internal and external audits and all contracts over \$5,000 in value publicly available on another state Web site (www.reportingtransparency.ca.gov).⁴³ Internal financial, operational, compliance, and performance audits dating back to January 1, 2008, conducted by both internal auditors and outside auditors will be posted on the Web site. In addition, summary information on all state contracts reported to the Department of General Services, dating back to March 2009, will be posted on the Web site within 5 working days.

⁴²The Single Audit Act, as amended (31 U.S.C. ch. 75), requires that each state, local government, or nonprofit organization that expends \$500,000 or more a year in federal awards must have a Single Audit conducted for that year subject to applicable requirements, which are generally set out in OMB Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations* (June 27, 2003). If an entity expends federal awards under only one federal program, the entity may elect to have an audit of that program.

⁴³Executive Order S-08-09, June 4, 2009.

Internal Control Assessments Have Been Expanded to Include “Readiness Reviews” of Agencies Receiving Recovery Act Funds

OSAE has primary responsibility for reviewing whether state agencies receiving Recovery Act funds have established adequate systems of internal control to maintain accountability over those funds. According to state officials, OSAE has been using two primary approaches to assessing internal controls at agencies receiving Recovery Act funds—FISMA reviews (an existing internal control assessment tool) and readiness reviews (a new internal control assessment tool). Both the FISMA reviews and the readiness reviews rely primarily on information that is self-certified by agency officials.

FISMA reviews are an integral part of California’s existing statewide internal control structure. A key aspect of the FISMA review is to identify risk areas for state agencies. FISMA requires each state agency to maintain effective systems of internal accounting and administrative control, to evaluate the effectiveness of these controls on an ongoing basis, and to biennially review and prepare a report on the adequacy of the agency’s systems of internal accounting and administrative control. Agency heads are responsible for evaluating their respective agencies’ internal controls and systems and submitting reports to OSAE. Seventeen state agencies maintain internal audit units, which perform the FISMA reviews, while other agencies contract out these reviews to OSAE, the State Controller’s Office, or private audit firms. According to OSAE officials, FISMA reports vary in quality and thoroughness, and OSAE is in the process of meeting with all state agencies to improve the quality of the FISMA reviews. When deficiencies are identified in the reports, agencies are required to submit corrective action plans to OSAE every 6 months until the deficiencies are resolved.

As requested by the Task Force, OSAE has initiated readiness reviews of some state agencies due to receive Recovery Act funds, with specific emphasis on accountability and oversight processes. OSAE completed the first review on April 30, 2009, which focused on six departments. As of June 12, OSAE had completed nine readiness reviews. The readiness reviews have covered several agencies that are responsible for programs that we are reviewing, including Caltrans, EDD, CalEMA, and CSD. These reviews, which largely consist of self-reported information, concluded that Caltrans, EDD, and CalEMA have adequate oversight and accountability controls in place related to Recovery Act funding. However, the CSD review concluded that several concerns and recommendations identified

in the review need to be addressed in order to achieve adequate oversight and accountability readiness.⁴⁴

As a result of these readiness reviews, the Task Force has recommended that all state agencies continue to coordinate with state and federal authorities to obtain clear guidance on allowable administrative and overhead expenses, oversight roles and responsibilities for direct funding to localities (if applicable), and additional specific Recovery Act reporting requirements. The Task Force has also identified four core readiness areas that state agencies expecting to receive Recovery Act funds must review and implement prior to receiving and distributing Recovery Act funds. (See table 4 for these four core readiness areas and related actions to be taken by agencies.)

Table 4: Core Readiness Areas for Agencies Receiving and Disbursing Recovery Act Funds

1. Oversight and fraud prevention
 - Agencies are to perform a Recovery Act-related risk assessment in order to identify and mitigate potential risks.
 - Agencies are to provide fraud awareness training to their employees and recipients to make them aware of potential vulnerabilities of Recovery Act funds to fraudulent use.
 2. Grants management and accountability
 - Agencies are to provide training to recipients regarding proper grant management and accountability.
 - Agencies are to develop standard grant templates with specific Recovery Act language and written guidance for recipients.
 - Agencies are to develop tracking mechanisms for specific Recovery Act data elements, including number of jobs created.
 3. Reporting requirements
 - Agencies must be prepared to separately track the receipt and disbursement of Recovery Act funds in their accounting systems.
 - Agencies must develop and maintain systems to track and identify administrative costs associated with administering Recovery Act funds.
 4. Transparency
 - Agencies are to develop clear and informative information reporting systems.
-

Source: California Recovery Task Force Recovery Act Bulletin 09-01.

⁴⁴As discussed later, the State Auditor has also conducted recent reviews of four state agencies receiving Recovery Act funds, and has reported concerns over these departments' readiness to implement all of the applicable Recovery Act provisions.

New State Inspector General Function Is Still under Development

In addition to OSAE, California's Recovery Act Inspector General has oversight responsibility for Recovery Act funds. According to the Inspector General's office, her overarching objective is to protect the integrity and accountability of the expenditure of Recovery Act funds disbursed to California in a manner consistent with the Governor's executive order and the Recovery Act's core objective of promoting transparency and accountability. The Inspector General proposes to achieve this objective by developing the inspector general function in three phases: (1) assess California's Recovery Act oversight needs, educate government officials and the public, and assist in integrating the existing oversight capabilities of state and local government; (2) ensure that adequate controls exist over the management, distribution, expenditure, and reporting to detect and deter fraud, waste, and abuse of Recovery Act funds; and (3) disclose fraud, waste, and abuse in the handling and disbursement of Recovery Act funds and, as appropriate, refer and report matters involving suspected fraud, waste, and abuse to appropriate law enforcement officials and state executive and legislative officials for further action. The Inspector General is currently in the first phase of this plan.

State Auditor Is Expanding Single Audit Work and Conducting Special Reviews of Recovery Act Funds

The California State Auditor, as the state's independent auditor, is also responsible for oversight of Recovery Act funds. This responsibility is being carried out not only through the production of the Single Audit reports that encompass Recovery Act funds, but also through special targeted reviews of state agencies receiving Recovery Act funds. Because the State Auditor added California's system for administering federal Recovery Act funds to its list of statewide high-risk issue areas, the State Auditor will execute her authority to conduct audits and reviews of the state's and selected departments' readiness to comply with applicable Recovery Act requirements. According to the State Auditor, the state system's high-risk designation resulted from a number of concerns, including the amount of Recovery Act funds expected to be distributed to California, the extensive requirements the Recovery Act places on fund recipients, the risk of losing Recovery Act funds if the state fails to comply with requirements, and previously identified concerns related to certain state agencies' internal controls over their administration of federal programs.

The State Auditor issued her first Recovery Act funding-related review on June 24, 2009. This review, which covered CDE, the Department of Healthcare Services, EDD, and the Department of Social Services, concluded that none of the four departments is fully prepared to

implement all of the Recovery Act provisions. Specifically, the State Auditor noted in the report that each of the four departments generally planned to rely on existing internal controls for maintaining accountability and oversight of Recovery Act funds. While the report stated that this is a reasonable approach, the most recent Single Audit report identified 30 internal control weaknesses in programs within these departments that expect to receive Recovery Act funds. Of these, only 4 had been corrected, 22 were in the process of being corrected, and no action had been taken on the 4 remaining deficiencies. Consequently, the State Auditor concluded that without correcting these internal control deficiencies, relying on existing internal controls may not provide sufficient assurance that recipients of Recovery Act funds will comply with one or more of the various Recovery Act provisions.

The State Auditor also anticipates that the amount of Recovery Act funds will increase the number of programs covered by the statewide Single Audit report, and that most programs receiving Recovery Act funds will be covered by the audit. The most recent statewide Single Audit report was issued on May 27, 2009, and covered the fiscal year ending June 30, 2008.⁴⁵ More than half of the 138 findings in this report were also reported in the prior year's single audit report. The audit found that the state did not comply with certain federal requirements in 20 of the 39 major programs or program clusters that were audited. The Single Audit report also identified 234 material and significant deficiencies in internal controls. Identified internal control deficiencies that may be relevant to Recovery Act funds include the following:

- The state's automated accounting system does not identify expenditures of federal awards for each individual federal program.
- The state still does not have adequate written policies and procedures to accurately calculate federal and other interest liabilities by program as required in its cash management agreement with the federal government.
- The database the state uses to prepare its statewide cost allocation plan, which is used to recover a portion of the state's costs for administering federal programs, is problematic in that the

⁴⁵California State Auditor, *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008*, Report 2008-002 (May 2009).

programming is difficult to understand and inadequately documented, and errors are difficult to identify and correct.

- The state cannot ensure that local governments are taking prompt and appropriate corrective action to address audit findings after it receives the local governments' audit reports.

The most recent Single Audit report identified a number of significant deficiencies or material weaknesses in several of the programs we reviewed. For example, the report cited continued problems with CDE ESEA Title I cash management, specifically that CDE routinely disburses Title I funds to districts without determining whether the LEAs need program cash at the time of the disbursement.⁴⁶ According to CDE officials, in response to these issues, CDE has developed a cash management improvement plan that involves LEAs reporting federal cash balances on a quarterly basis using a Web-based reporting system. In addition, officials stated that CDE has developed cash management fiscal monitoring procedures to verify LEAs' reported cash balances and to ensure their compliance with federal interest requirements. CDE plans to implement the new plan beginning with a pilot program, Title II Improving Teacher Quality, for the quarter ending October 31, 2009.⁴⁷ CDE was also cited for inadequate review and approval controls associated with the CDE ESEA Title I reporting, as well as several material control weaknesses and deficiencies with school district processes and controls that may pose compliance issues for some school districts.

The Single Audit report also cited concerns about CSD's contracts with local agencies to determine eligibility for certain programs. CSD, which is also responsible for the Weatherization Assistance Program, responded that it will update guidance provided to local agencies and continue its current practice of monitoring and providing assistance and training to local agencies. Additionally, both the 2007 and 2008 Single Audit reports identified material weaknesses in the state's Medicaid program. The 2007 Single Audit report for California identified a number of material

⁴⁶In March 2009, Education's Office of Inspector General also reported persistent Title I cash management problems at CDE, as well as material control weaknesses and deficiencies with school district processes and controls.

⁴⁷According to CDE officials, once the pilot program is deemed to be working as intended, other federal programs, including Title I, will be phased into CDE's new cash management system and processes.

weaknesses related to the Medicaid program, including insufficient documentation for provider and beneficiary eligibility determinations and the risk of noncompliance with allowable costs principles. The report indicates that state officials concurred with all the findings and noted that corrective actions would be taken. The 2008 Single Audit report identified some of these same weaknesses.

State Officials Express Concerns about the Lack of Clear Guidance on Reimbursement for Administrative and Oversight Activities

California officials told us that while OMB's May 11, 2009, guidance that allows states to recover some of their administrative costs associated with Recovery Act activities is helpful, many questions remain as to what costs can be recovered and how they should structure their activities to ensure payment. Given that the state is largely relying on existing systems to manage and oversee Recovery Act funds, the guidance is not clear on how to segregate the administration of an increased workload for reimbursement. For example, the state hopes that the Recovery Act readiness reviews performed by OSAE, which is diverting resources from its regular internal control work, can be reimbursed so that it can hire additional staff to cover the increased workload. Similarly, the State Auditor's Office hopes that its increased workload can be reimbursed, but it believes that because it is an independent audit function, separate from the administration, there is no process through which this can occur. Finally, the Task Force and the Chief Information Officer both expressed hope that the new data platform they are purchasing to track and report Recovery Act funds can be reimbursed with Recovery Act funds but are uncertain if they have to locate the system within one of the program agencies to be eligible for reimbursement. The Task Force has sought, but not yet received, clarification on cost reimbursement issues from OMB.

State Agencies, Housing Authorities, and Subrecipients We Interviewed Generally Plan to Use Existing Internal Control Processes to Oversee Recovery Act Funds

State agencies, public housing authorities, and various subrecipients we met with plan to use existing internal control systems and resources to oversee Recovery Act funds.⁴⁸ For example, both the FHWA California Division Office and Caltrans reported plans to conduct oversight activities on a subset of projects, based either on random sample or other criteria. Caltrans District Office staff will use existing systems and resources to conduct contract administration and construction inspection oversight for the Interstate 80 project in Solano County and will meet with city contract engineers to ensure adequate record keeping (i.e., completion of daily logs and quality assurance) during the construction period for the Del Monte Boulevard pavement rehabilitation project in the City of Seaside.⁴⁹

Likewise, CDE and school district officials said that they plan to rely on existing internal controls and automated and manual processes to track the receipt and expenditure of education-related Recovery Act funds. Additionally, they each said they have other oversight entities in place that could specifically monitor Recovery Act activities. For example:

- LA Unified has its own Office of Inspector General that helps the school board oversee district funds. Recently, the Inspector General recommended that the district establish a task force to communicate Recovery Act requirements, establish monitoring mechanisms, and ensure that such mechanisms function as intended. The school district subsequently established a Recovery Act task force, comprising budget, fiscal, and program personnel.
- San Bernardino Unified administratively falls under the San Bernardino County Schools Superintendent's Office, which has its own internal audit function. According to San Bernardino Unified officials, the district's Recovery Act activities are subject to review by the county.

⁴⁸As previously discussed, the State Auditor's recent report on four agencies receiving Recovery Act funds concluded that without correcting existing internal control deficiencies, CDE, the Department of Health Services, EDD, and the Department of Social Services may not be in a position to rely on existing internal controls to provide sufficient assurance that they will be able to comply with the applicable requirements of the Recovery Act.

⁴⁹In the past, FHWA has reported that there are risks associated with local implementation of federal regulations, including difficulty maintaining compliance with these federal regulations.

Additionally, CSD officials stated that they have internal controls at the agency and subgrantee levels, including four in-house auditors and one retired annuitant who perform desk audits of the subgrantees. For Recovery Act weatherization funds, it is anticipated that the auditors will also perform annual site audits. Similarly, CalEMA has three in-house audit staff plus a chief of staff who monitor internal controls of all aspects of CalEMA, including the JAG program and its subgrantees. CalEMA officials told us they plan to hire five program specialists to monitor the projects (including conducting site visits) for compliance with JAG guidelines for projects funded by the Recovery Act. For the WIA Youth program, EDD officials told us that federal regulations already require the department to conduct fiscal and program reviews of whether local areas are meeting WIA requirements, although they noted that they are uncertain if they will be able to review all 2009 summer programs on their own or in conjunction with U.S. Department of Labor.⁵⁰ EDD officials also told us that they plan to have tools in place in July 2009 to address the monitoring requirements of the Recovery Act and that they plan to begin oversight at that time.

Officials from several state agencies also told us that they will use subrecipient Single Audit report results as an additional oversight mechanism. For example, the Caltrans Office of Audits and Investigations uses findings from Single Audit reports and its own audits of local agencies to identify any issues and track corrective actions. If a locality fails to act on an identified problem, the Office of Audits and Investigations can recommend that its Division of Local Assistance designate the locality as high risk, which then requires the locality to pass several conditions, audits, or both to be removed from the high-risk list. Similarly, CDE has an Audit Resolution Unit that reviews LEA Single Audit reports to identify unresolved findings. According to Audit Resolution staff, such unresolved audit findings are entered into an access database that is used to track the status until the finding is resolved. Unit staff send follow-up letters to LEAs with unresolved findings that request corrective action plans. If a response is not received within a month, unit staff will make follow-up contact until an adequate response is received. Officials at LA Unified and San Bernardino Unified confirmed that CDE is following up with them on Single Audit report findings. For WIA Youth programs,

⁵⁰Program reviews include interviews with local officials, service providers, and participants; reviews of applicable policies and procedures; and reviews of sample expenditures, procurements, and participant case files.

EDD officials also reported that they routinely monitor Single Audit report results for local areas and work with the state Workforce Investment Board to resolve findings and help local areas develop corrective action plans. Officials reported that in-house audit staff are responsible for follow-up on Single Audit report findings.

State Officials and Local Recipients Continue to Express Concerns about the Lack of Clear Guidance on Measuring Impacts of Recovery Act Funds

Several state agency officials, subrecipients, and housing authorities believe that additional guidance is needed from OMB and other federal agencies before they can fully address the issues of impact and jobs assessments.⁵¹ The first required quarterly report containing estimates of the number of jobs created and retained by projects or activities supported by Recovery Act funds is due October 10, 2009. The Task Force is planning to rely on each state agency to collect and report information on job creation for the recipient programs and subrecipient organizations.⁵² Several officials reiterated that they anticipate it will be difficult to separate the specific impacts of Recovery Act funds when those funds are combined with other federal, state, or local funds, as they will be in many situations. Additionally, officials expressed concerns about the potential for inconsistent reporting among subrecipients or contractors. For example:

- CSD officials told us that they would like to see guidance from DOE on how to measure the creation of jobs related to the Recovery Act. CSD officials reported that they are currently preparing their best estimates without the benefit of any guidance.
- CDE and school district officials told us that additional guidance is needed on the specific requirements for reporting on the number of jobs retained or created. The lack of guidance could result in reporting inconsistent data to CDE. Additionally, officials told us that assessing the effects of Recovery Act funds will be difficult because the state's extreme budget cuts and reduction in funding for education programs and staffing will only be partially mitigated by Recovery Act stabilization funds, and many jobs will still be lost. Consequently,

⁵¹On June 22, 2009, OMB issued implementing guidance for the reporting on the use of Recovery Act funds (M-09-21).

⁵²As previously discussed, the state plans to use agency and subrecipient reporting to collect information on Recovery Act funds, including impacts, but has not yet purchased the data platform to achieve this and is awaiting further guidance on data standards from OMB.

officials generally reported that they will be measuring the number of jobs retained rather than jobs created, but they have not received guidance for measuring such impacts.

- EDD officials told us that they would like clarification from the U.S. Department of Labor on how to assess and measure jobs preserved and created as a result of increased WIA funding. California Workforce Investment Board and EDD officials stated that WIA Youth programs promote job creation, but do not necessarily create jobs themselves. Also, they noted that WIA prohibits the use of funds for economic-generating activities not tied to participants, and therefore its programs are unlikely to be used to create jobs other than for program participants. These officials told us that the state's existing system can track the number of youth placed into employment, but it is not designed to track jobs created or retained because of Recovery Act funding.
- Caltrans officials said that contracts will require contractors to report the number of workers and payroll amounts, among other things, to Caltrans on a monthly basis. Caltrans will then provide the data to the FHWA California Division Office, which, in turn, will provide it to FHWA Headquarters. Using the data provided, FHWA Headquarters plans to calculate the number of direct, indirect, and induced jobs. The contract for the Interstate 80 project, for example, included this type of reporting requirement, and the contractor reported May 2009 data to Caltrans in early June 2009. However, as of June 12, 2009, no formal training or guidance on job reporting requirements had been provided to contractors or local officials. A Caltrans official told us that they will be working with contractors to answer questions that arise about job reporting requirements and to ensure that the numbers reported match reporting criteria.
- Local housing officials expressed concern with the lack of guidance from OMB on measuring job creation. They told us that they would take measures to meet OMB's guidance when it becomes available. Housing officials generally told us that they plan to track jobs created by obtaining feedback and certified payroll information from contractors and subcontractors.

Aside from job creation, many of the recipient agencies that we spoke with are also developing and implementing plans to evaluate other effects of Recovery Act funds. For example:

- According to CalEMA officials, their primary challenge will be timely reporting on new performance measures that the Department of

Justice's BJA provided in draft on May 11, 2009, including for the JAG funds provided under the Recovery Act. The 71 separate performance measures are to be assessed each quarter by local law enforcement agencies and submitted to CalEMA for reporting to BJA within 30 days after the quarter ends. According to officials, these measures are far more complex and numerous than those currently required for this program. Additionally, CalEMA officials anticipate that it will be a challenge to get all participants to report within these time frames. CalEMA officials are looking to develop a secure Web site to help obtain the required information in an efficient and timely manner. According to Office of Justice Programs (OJP) officials in the Department of Justice, JAG grant recipients are to begin reporting on these updated measures in January 2010. OJP is also in the process of developing an online performance measurement tool for JAG grantees to use to report these data, which it expects to be finalized by October 2009.

- According to school district officials, no new evaluations or studies are planned just for Recovery Act activities or funding. Nevertheless, officials told us that they plan to perform a variety of evaluations and studies that could assist them in reporting Recovery Act impacts. For example, LA Unified's Special Education program, which is operating under a modified consent decree, is monitoring 18 performance-based outcomes as part of that decree, which could provide useful data for reporting on Recovery Act impacts. For example, an outcome already met was having at least 95 percent of students with disabilities in state-identified grade levels participate in the statewide assessment program with no accommodations or standard accommodations. Similarly, officials from San Bernardino Unified said that assessments and studies called for in the district's Special Education Master Plan could help report on Recovery Act impacts.
- The Recovery Act provides that work readiness is the only indicator to be used for youth who only participate in WIA summer employment activities. However, for reporting to EDD, local areas will also be required to track the number of participants enrolled in summer employment and the completion rate of those in summer employment programs. For example, San Francisco's program is requiring service providers to track the number of youth provided work experience opportunities, those receiving training and academic enrichment activities, and other data.

State Comments on This Summary

We provided the Governor of California with a draft of this appendix on June 19, 2009.

In general, California state officials agreed with our draft and provided some clarifying information, which we incorporated. The officials also provided technical suggestions that were incorporated, as appropriate.

GAO Contacts

Linda Calbom, (206) 287-4809 or calboml@gao.gov

Randy Williamson, (206) 287-4860 or williamsonr@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Paul Aussendorf, Assistant Director; Joonho Choi; Michelle Everett; Chad Gorman; Richard Griswold; Bonnie Hall; Don Hunts; Delwen Jones; Al Larpenteur; Susan Lawless; Brooke Leary; Heather MacLeod; and Eddie Uyekawa made major contributions to this report.