

May 2010

# RECOVERY ACT

## States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (California)



GAO

Accountability \* Integrity \* Reliability

# Appendix II: California

## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)<sup>1</sup> spending in California. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

## What We Did

This appendix is based on GAO's work in California and provides a general overview of (1) California's uses of Recovery Act funds for selected programs, (see table 1), (2) the steps California agencies are taking to ensure accountability for these funds, and (3) the impacts that these funds have had on creating and retaining jobs. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

**Table 1: Description of Selected Recovery Act Programs**

Recovery Act program	Selected Recovery Act program funding levels and program purposes
Clean and Drinking Water State Revolving Funds (SRF)	<ul style="list-style-type: none"><li>The Environmental Protection Agency (EPA) allocated about \$439 million in Recovery Act capitalization grants for Clean and Drinking Water SRF programs to California.</li><li>These funds are to be used primarily for grants and loans to local governments and other entities for wastewater and drinking-water infrastructure projects and pollution projects intended to protect or improve water quality.</li></ul>
COPS Hiring Recovery Program (CHRP)	<ul style="list-style-type: none"><li>The Department of Justice (DOJ) awarded approximately \$211 million to 109 law enforcement agencies in California under CHRP.</li><li>CHRP is a competitive grant program that directly funds law enforcement agencies for hiring, rehiring, or filling previously unfunded career law enforcement positions and increasing community-policing capacity and crime-prevention efforts.</li></ul>
Edward Byrne Memorial Justice Assistance Grants (JAG)	<ul style="list-style-type: none"><li>DOJ awarded California with a total of about \$225 million in JAG Recovery Act funds.</li><li>JAG is a federal grant program to state and local governments for law enforcement and other criminal-justice activities, such as crime prevention and domestic violence programs, corrections, drug treatment, justice information-sharing initiatives, and victims' services.</li></ul>
Weatherization Assistance Program	<ul style="list-style-type: none"><li>The Department of Energy (DOE) allocated approximately \$186 million in total Recovery Act weatherization funding to California to be spent over a 3-year period.</li><li>This program enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment.</li></ul>
Workforce Investment Act of 1998 (WIA) Dislocated Worker Program	<ul style="list-style-type: none"><li>The U.S. Department of Labor (Labor) distributed about \$222 million of the over \$1 billion provided under the Recovery Act for WIA Dislocated Worker Program activities to California.</li><li>The purpose of the program is to provide employment and training services to dislocated workers that increase their employment, retention, skills, and earnings.</li></ul>

Source: GAO.

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

To determine how California used Recovery Act funds under selected programs, we met with officials from state agencies in charge of administering program funds. We also met with recipients and subrecipients of Recovery Act funds in four local jurisdictions—the City of Los Angeles (Los Angeles), the County of Sacramento (Sacramento), the City and County of San Francisco (San Francisco), and the City of San Diego (San Diego). For the Clean and Drinking Water SRF programs, we selected five projects to conduct in-depth reviews: two Clean Water SRF projects and three Drinking Water SRF projects. These projects were chosen to capture a variety of characteristics, including green and not-green projects and projects serving disadvantaged and not-disadvantaged communities.<sup>2</sup>

To assess the steps taken by California agencies to ensure accountability for Recovery Act funds, we interviewed officials from the California Recovery Task Force (Task Force), which was established by the Governor in March 2009 and 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. We also met with California’s Recovery Act Inspector General, the California State Auditor, and selected state agencies to obtain information or updates on their oversight and auditing activities. In addition, we reviewed products, such as guidance memorandums, letters, and reports, issued by these agencies related to the Recovery Act.

To assess the effect Recovery Act funds have had on job creation and retention, we reviewed the information California recipients reported on [www.recovery.gov](http://www.recovery.gov) (Recovery.gov). As required by the Recovery Act, recipients of Recovery Act funds must report quarterly on several measures, including estimates of the jobs created or retained using Recovery Act funds. To collect this information, the Office of Management and Budget (OMB) and the Recovery Accountability and Transparency Board created a nationwide data-collection system to obtain data from recipients, [www.federalreporting.gov](http://www.federalreporting.gov) (FederalReporting.gov), and another

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<sup>2</sup>The Recovery Act requires states to reserve at least 20 percent of their capitalization grants under these programs to fund “green” projects that address green infrastructure, water or energy-efficiency improvements, or other environmentally-innovative activities. In addition, both the State Water Resources Control Board (WRCB), which administers the Clean Water SRF program, and the California Department of Public Health (CDPH), which administers the Drinking Water SRF program, define disadvantaged community as a community with an annual median household income that is less than 80 percent of the statewide median household income.

site for the public to view and download recipient reports, Recovery.gov. In addition, we met with the Task Force to obtain current information on the state's experience in meeting Recovery Act reporting requirements and preparing the state's quarterly report ending March 31, 2010. We also followed up with the California Department of Education (CDE) and 10 local educational agencies (LEA) on issues related to estimating and reporting jobs that we testified on before the Committee on Oversight and Government Reform, House of Representatives, on March 5, 2010.<sup>3</sup> Our prior work has focused on three Recovery Act education programs with significant funds being disbursed—the State Fiscal Stabilization Fund (SFSF) and Recovery Act funds for Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended (ESEA), and the Individuals with Disabilities Education Act (IDEA), as amended, Part B.

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## What We Found

California used Recovery Act funds to expand and preserve existing services. Several programs we reviewed experienced significant increases in funding as a result of the Recovery Act, which allowed California to expand those programs and services. Specifically, the Recovery Act more than doubled the program budgets for the JAG and Weatherization Assistance Programs and allowed recipients to increase capacity and provide additional services to California residents. This additional funding made available by the Recovery Act has affected the timing of spending for certain programs, as well as other factors such as the implementation of new activities and requirements. For example, since California received a significant increase in JAG funds through the Recovery Act, the California Emergency Management Agency (Cal EMA), the state agency administering these funds, needed time to define new program activities before awarding funds to local jurisdictions. Cal EMA officials told us that they wanted to carefully plan for the use of these funds and as a result the agency did not begin awarding funds until February 2010. Recovery Act funds have also helped preserve services, but budgetary gaps remain at the state and local level. The state used about \$8 billion in Recovery Act funds to help balance its state fiscal year 2009-2010 budget, but state officials do not anticipate receiving this type of general budgetary relief from Recovery Act funds in the 2010-2011 state general fund budget, which faces a \$21 billion shortfall. Local governments we met with used Recovery Act funds to preserve services, despite overall budgetary

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<sup>3</sup>GAO, *Recovery Act: California's Use of Funds and Efforts to Ensure Accountability*, GAO-10-467T (Washington, D.C.: Mar. 5, 2010).

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pressures. For instance, officials from two local governments we visited—Los Angeles and San Francisco—stated that CHRP grants were particularly useful in helping them maintain staffing levels within their law enforcement workforce.

Since the Recovery Act was enacted in February 2009, California state audit and oversight entities have taken various actions to oversee the use of Recovery Act funds. In our previous reports on Recovery Act implementation, we discussed the oversight roles and activities of key entities in California for Recovery Act funds, including the Task Force, the Recovery Act Inspector General, and the State Auditor. State oversight entities, for example, have conducted risk assessments of internal control systems, provided guidance to recipients of Recovery Act funds, and issued reports highlighting concerns with the use of Recovery Act funds. For example, as of May 2010, the State Auditor has conducted reviews of 32 Recovery Act programs and published nine products with the results of these reviews. State agencies are also responsible for, and involved in, oversight and audits of Recovery Act programs. For example, WRCB officials told us it is using existing internal controls—which include regular contact with subrecipients, reviews of reimbursement requests, and a requirement for subrecipients to conduct financial statement audits—and has also implemented new procedures, such as enhanced project inspections using a Recovery Act checklist recently developed by EPA.

According to Recovery.gov, recipients of Recovery Act funds in California reported funding over 70,000 full-time equivalents (FTE) during the third reporting period; however, problems continue with CDE's reporting and review of jobs data, calling the reliability of California's FTE estimates into question. Of the FTEs reported, over 46,000 were education-related jobs funded by Recovery Act education programs. However, as we reported in March 2010, LEAs awarded contracts using Recovery Act funds and either did not report or underreported vendor jobs associated with these contracts. For example, after we brought this to the attention of one LEA, it reported that its vendor jobs estimate increased from 12 to 79 when it recalculated the jobs associated with all Recovery Act contracts. CDE, as the prime recipient of Recovery Act education funds, has not issued detailed guidance to LEAs on collecting and reporting vendor jobs. According to CDE, it will provide clarifying guidance to LEAs when it communicates with them regarding the next reporting period. In addition, our review of 10 large LEAs found that CDE's data-reliability strategies did not always identify questionable LEA FTE estimates. Until CDE issues more specific guidance to LEAs on vendor jobs and follows up with them

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to help ensure proper implementation; in addition to revising its approach to assessing the reasonableness of LEA job estimates, the reliability of California's overall jobs reporting will continue be in question.

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## California Is Using Recovery Act Funds to Expand Programs and Preserve Services

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### Recovery Act Funds Allowed California to Expand Services for Some Programs

Overall, California expects to receive approximately \$85 billion in Recovery Act funds, including approximately \$55 billion for infrastructure and services such as public safety, education, and workforce training.<sup>4</sup> The Recovery Act provided increased funding to existing programs such as JAG, Weatherization Assistance, WIA Dislocated Worker, and Clean and Drinking Water SRF, which allowed state and local agencies to expand services in these areas. For instance:

- California state and local governments were allocated about \$225 million in JAG Recovery Act funds,<sup>5</sup> a significant increase from the fiscal year 2008 JAG allocations of about \$17 million. For example, Los Angeles received over \$11 million in JAG Recovery Act funds. Los Angeles officials told us that the city was able to dedicate the additional JAG funds to support gang-reduction efforts and develop communications infrastructure. Table 2 shows how three localities we visited are planning to use these funds.

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<sup>4</sup>The other \$30 billion in Recovery Act funds California expects to receive goes directly to individuals and businesses for tax relief.

<sup>5</sup>Of the approximately \$225 million in JAG Recovery Act funds, about \$135 million has been allocated to the state, part of which is passed onto localities. The remaining amount, approximately \$90 million, was allocated directly to local governments. The minimum percentage of Recovery Act JAG funds that the state of California is required to pass through to local governments, referred to as "state pass-through funds" in this appendix, is 67 percent.

**Table 2: Planned Uses of JAG Recovery Act Funds in Los Angeles, San Francisco, and San Diego**

Locality	State pass-through allocation (dollars)	Locality allocation <sup>a</sup> (dollars)	Planned uses
Los Angeles	\$375,000	\$11.1 million	<ul style="list-style-type: none"> <li>• Support gang-reduction efforts</li> <li>• Develop regional communications infrastructure aimed at increasing response capabilities of law enforcement and crisis personnel</li> <li>• Increase efforts of the Los Angeles Police Department’s anti-human-trafficking program through additional investigations to identify individuals involved in human trafficking</li> </ul>
San Francisco	2.4 million	3.0 million	<ul style="list-style-type: none"> <li>• Provide drug treatment to offenders</li> <li>• Raise awareness of human trafficking and increase the capacity of law enforcement to identify victims</li> <li>• Develop a probation system using a risk- and needs-assessment approach</li> <li>• Assess trends in drug-related crime and develop integrated strategies to suppress and prevent drug-related crime</li> <li>• Support a regional approach to reducing methamphetamine production and distribution</li> <li>• Provide a prosecutor to support complex cases</li> <li>• Provide intensive supervision of probationers</li> <li>• Implement a transitional housing voucher program for adults referred through drug court</li> <li>• Expand case-management capacity to high-risk youth referred through juvenile drug court</li> <li>• Provide outreach and crisis-response services</li> <li>• Provide support to traumatized individuals, family members, and community members</li> <li>• Partially fund the development of a shared criminal justice case-management system</li> </ul>
San Diego	n.a. <sup>b</sup>	3.1 million	<ul style="list-style-type: none"> <li>• Provide 4-year salaries and benefits for six positions, including a crime intelligence analyst, a laboratory technician, a criminalist, a latent print examiner, a probations officer and a management analyst</li> <li>• Procure communication equipment, such as cellular phone trackers and a secondary communication path for patrol vehicles</li> </ul>

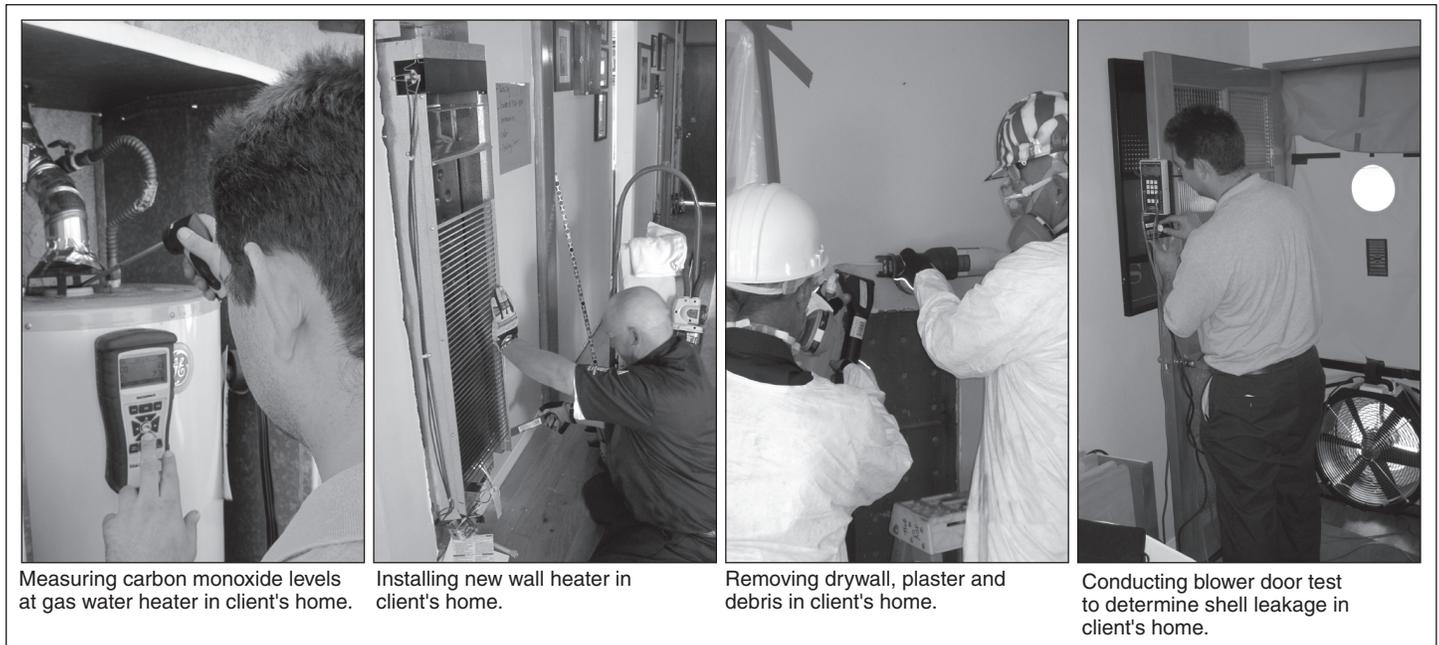
Source: GAO analysis of information provided by local law enforcement entities in Los Angeles, San Francisco, and San Diego.

<sup>a</sup>Los Angeles was allocated \$30.5 million in Recovery Act JAG funds. Of these funds, the city passed approximately \$16.4 million to 77 communities, including the cities of Beverly Hills, Long Beach, and Pasadena, because it served as a fiscal agent for those communities. Los Angeles used 10 percent (about \$3.1 million) to administer the grant among the 77 communities and \$11.1 million for Recovery Act JAG programs within Los Angeles. Similarly, San Diego received about \$6.4 million in Recovery Act JAG funds through the direct local allocation and retained \$3.1 million for Recovery Act JAG programs while passing along the remaining amount to the other communities for which it served as fiscal agent.

<sup>b</sup>n.a. = not applicable. As of March 30, 2010, San Diego had not been awarded any JAG state pass-through funds.

- California was allocated approximately \$186 million in Recovery Act funds to be spent over a 3-year period for weatherization in California, a large increase over California's annually appropriated weatherization program, which received about \$14 million for fiscal year 2009. The California Department of Community Services and Development (CSD)—the state agency responsible for administering the state's weatherization program—estimates that approximately 43,000 homes will be weatherized with Recovery Act funds. By June 2009, California had received 50 percent—about \$93 million—of its Recovery Act allocation. CSD retained approximately \$16 million to support oversight, training, and other state activities and has begun distributing the remaining \$77 million throughout its existing network of local weatherization service providers, including nonprofit organizations and local governments. Figure 1 shows improvements being made to a single-family home under the Weatherization Assistance Program with Recovery Act funds.

**Figure 1: Weatherization of a California Home Using Recovery Act Funds**



Source: Pacific Asian Consortium in Employment.

- California's WIA Dislocated Worker Program received about \$222 million in Recovery Act funds, which increased its budget from \$168

million in program year 2008-2009.<sup>6</sup> We visited two local workforce investment areas—the Los Angeles Community Development Department and the San Diego Workforce Partnership, Inc.—both of which provided more training programs using Recovery Act funds. Both agencies also directly awarded contracts to institutions of higher education, such as community colleges, under new authority provided by the Recovery Act. For instance, the San Diego Workforce Partnership, Inc. awarded contracts to 13 college campuses to provide training to adult and dislocated workers. Table 3 provides an overview of the planned uses of WIA Recovery Act funds for dislocated workers in the two areas we visited.

**Table 3: Planned Uses of WIA Dislocated Worker Program Recovery Act Funds in Los Angeles and San Diego**

Locality	Allocation (dollars)	Planned uses
Los Angeles	\$12,922,336	<ul style="list-style-type: none"> <li>• Serve an increased amount of customers through WorkSource Centers</li> <li>• Vocational training</li> <li>• High-growth initiatives</li> <li>• Training through institutions of higher education</li> </ul>
San Diego	8,967,124	<ul style="list-style-type: none"> <li>• Job training, including high-growth and green jobs, much of which is through institutions of higher education in healthcare, bio-technology, green / clean technology jobs, or infrastructure construction</li> <li>• Training to earn industry-recognized credentials through on-the-job training, customized training, and individual training accounts</li> </ul>

Source: GAO analysis of Los Angeles Community Development Department and the San Diego Workforce Partnership, Inc., information.

- The Clean and Drinking Water SRF programs also received a significant increase in funding from prior years. EPA allocated approximately \$439 million in Recovery Act SRF capitalization grants to California—about \$280 million for the Clean Water SRF and about \$159 million for the Drinking Water SRF. For fiscal year 2008, the base capitalization grants for the Clean and Drinking Water SRF programs were about \$49 million and \$66 million, respectively. Recovery Act Clean Water SRF funds have been awarded to 83 subrecipients for a total of 109 projects—such as replacing septic systems with connections to the municipal sewer system—which WRCB reports are intended to support the federal goal of fishable, swimmable waters.<sup>7</sup>

<sup>6</sup>The Workforce Investment Act program operates on a program year rather than a fiscal year basis. The program year for 2009 began on July 1, 2009 and will end on June 30, 2010.

<sup>7</sup>In this report we use the word “project” to mean an assistance agreement, that is, a loan or grant agreement made by the state SRF program to a subrecipient for the purpose of a Recovery Act project.

Recovery Act Drinking Water SRF funds have been awarded to 48 subrecipients for a total of 51 projects that, according to CDPH, are aimed at helping water systems come into compliance with federal regulations—thus reducing public health exposure to contaminants—or install water meters to improve water conservation in the state. Of the 160 Recovery Act–funded SRF projects in California, 107 are serving recipients that had never received base SRF funding in the past from the SRF program that awarded them Recovery Act funds. We selected 5 of the 160 projects to review the uses of Recovery Act funds and the expected benefits of these projects (see table 4).

**Table 4: Selected Recovery Act Clean and Drinking Water SRF Projects and Their Potential Benefits**

Project name	Project type	Estimated project cost (dollars)	Recovery Act award (dollars)	Project description	Examples of potential benefits
San Jerardo Cooperative Water System Improvements	Drinking Water	\$5,049,030	\$2,743,530	Install new well improvements, transmission pipeline, and water storage tanks, and demolish existing wells.	<ul style="list-style-type: none"> <li>Provide reliable source of safe drinking water.</li> <li>Replace existing wells from which untreated water contains excessive levels of nitrates and trichloropropane.</li> <li>Save county expense of temporary filtration system.</li> </ul>
City of Sacramento Water Meter Retrofit Project	Drinking Water	22,631,016	20,000,000	Install 16,500 underground water meters.	<ul style="list-style-type: none"> <li>Encourage water conservation by charging for actual use instead of flat rate.</li> <li>Save energy because city will not need to treat and produce as much water at its plants.</li> </ul>
Herndon Town Water System Project	Drinking Water	619,980	619,978	Replace private water system with connections to city water system.	<ul style="list-style-type: none"> <li>Provide reliable source of safe drinking water.</li> <li>Replace existing 60-year-old, dilapidated, chloroform-contaminated private water system.</li> </ul>
Herndon Town and Cortland / Fountain Way Sewer Systems Project	Clean Water	999,468	865,386	Replace individual private septic systems with connections to city sewer system.	<ul style="list-style-type: none"> <li>Decrease level of nitrates degrading and contaminating regional groundwater.</li> <li>Residents will become city rate payers eligible for city services including maintenance and operation of sewer system.</li> </ul>
Tomales Bay Wetland Restoration and Monitoring Program	Clean Water	2,010,500	807,129	Integrate restoration of Giacomini Wetland with water quality monitoring.	<ul style="list-style-type: none"> <li>Reduce pollutant loading to EPA-listed impaired water body.</li> <li>Improve water quality for contact and noncontact recreation.</li> </ul>

Source: GAO analysis of information provided by Monterey County, the City of Fresno, the City of Sacramento, and the Tomales Bay Watershed Council Foundation.

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## For Certain Programs, Planning for Expanded Activities, Meeting Recovery Act Requirements, and Prioritizing Available Funding Has Impacted Spending Timelines

One year later state and local recipients of Recovery Act funds for certain programs had either not yet spent or expended only small percentages of funds. In some cases, this was because significantly increased funding levels allowed recipients to expand their capacities, which necessitated additional planning before spending funds. For example, the Recovery Act substantially increased JAG funding, and as of January 31, 2010, Cal EMA, the state agency responsible for administering JAG funds, had not awarded any of the share of \$135 million in JAG funds that is to be passed through the state to localities, largely because it spent time developing two new program activities. According to Cal EMA officials, following the distribution of Recovery Act funds by DOJ, they spent about 3 months defining program strategies for 2 of the 10 targeted funding areas: the Intensive Probation Supervision Program and the Court Sanctioned Offender Drug Treatment Program. These two new program activities accounted for \$90 million of the \$135 million in state grant money available to local jurisdictions. Cal EMA officials stated that they took the time to initially plan these programs carefully as opposed to quickly awarding funds and having to fix problems later. As a result, applications for these funds were not accepted by Cal EMA until the end of October 2009 and, Cal EMA did not begin awarding funds to local jurisdictions until February 2010. The State Auditor recently raised concerns about the pace of awards by Cal EMA noting that as of February 22, 2010 only 4 subgrants had been awarded.<sup>8</sup> Cal EMA subsequently reported that, as of March 11, 2010, it had awarded 204 of the 226 JAG Recovery Act grants it planned to award local jurisdictions, for a total of about \$117 million of the \$135 million. Cal EMA officials told us that they anticipate JAG Recovery Act funds will be expended in 2 years, well before the 4 year spending period ends.

In addition to planning for new activities, we also found that the state recipient for weatherization funds, CSD, took steps to ensure compliance with Recovery Act requirements before spending funds. As we previously reported, Labor determined the state's prevailing wage rates on September 3, 2009, or almost 3 months after CSD received funds from DOE. In addition, CSD requires service providers to adopt an amendment to their Recovery Act weatherization contracts to ensure that they comply with

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<sup>8</sup>California State Auditor, Bureau of State Audits, *California Emergency Management Agency: Despite Receiving \$136 Million in Recovery Act Funds in June 2009, It Only Recently Began Awarding These Funds and Lacks Plans to Monitor Their Use*, Letter Report 2009-119.4 (Sacramento, Calif.: May 4, 2010). Findings and recommendations from this review are described on page CA-16 of this appendix in table 6.

Recovery Act requirements, including certifying that they comply with Davis-Bacon provisions, before providing Recovery Act funds to them to weatherize homes. In February 2010, the State Auditor raised concerns about CSD's delays in weatherizing homes and management of the funds.<sup>9</sup> Our prior work has also highlighted delays with the program. Since our last report, CSD reported that a total of 2,934 homes in California, as of March 31, 2010, had been weatherized with Recovery Act funds, or approximately 75 percent of the 3,912 homes targeted for the first quarter of the 2010 calendar year. We plan to continue to follow California's progress in using Recovery Act weatherization funds, including CSD's progress in ensuring service areas have providers in place to continue weatherizing homes and that prevailing wage rates and other Recovery Act requirements are instituted.

Lastly, for programs such as the WIA Dislocated Worker Program, concurrent spending timelines for regular and Recovery Act program funds have affected when recipients decided to use Recovery Act funds. Officials from the Employment Development Department (EDD), the state agency administering WIA funds, noted that as of December 31, 2009, about 59 percent of the Recovery Act WIA Dislocated Worker funds allocated to localities had been obligated (\$78 million of the total \$133 million allotted) and 23 percent of the funds (\$31 million) had been expended. These officials told us that some local Workforce Investment Boards (WIB) had yet to spend about 90 percent of their WIA Dislocated Worker Recovery Act funds, including Los Angeles (91 percent unspent). According to EDD officials, many local WIBs have been spending their regular program funding before Recovery Act funds or have been spending the funds concurrently without necessarily giving priority to Recovery Act funds. Regular WIA formula funds and WIA Recovery Act funds are both available for expenditure for the same time period—3 program years for the state and 2 program years for local areas. As of March 31, 2010, the two areas we visited, Los Angeles and San Diego, continued to obligate and spend Recovery Act funds. Los Angeles obligated 93 percent of its allocation (about \$12 million) and spent 19 percent (\$2.4 million); and San Diego obligated 75 percent (about \$6.7 million) and spent 31 percent (\$2.8

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<sup>9</sup>California State Auditor, Bureau of State Audits, *Department of Community Services and Development: Delays by Federal and State Agencies Have Stalled the Weatherization Program and Improvements Are Needed to Properly Administer Recovery Act Funds*, Letter Report 2009-119.2 (Sacramento, Calif.: Feb. 2, 2010). In CSD's 60-day update to the State Auditor, CSD reported that it had made considerable progress since the audit was conducted.

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million). Both expect to expend 100 percent of their WIA Recovery Act funds before the June 30, 2011 deadline.

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### While Budgetary Problems Persist at the State and Local Levels, Recovery Act Funds Have Helped Preserve Services

In fiscal year 2009-2010, California used Recovery Act funds to help balance the state budget and to continue to provide services that may have otherwise experienced large cuts.<sup>10</sup> As discussed in our prior reports, a portion of the state's Recovery Act funds—over \$8 billion—was used to help balance its fiscal year 2009-2010 budget, when the state faced a nearly \$60 billion budget gap. The fiscal budget relief provided by Recovery Act funds to the state primarily came from an increase in the Medicaid Federal Medical Assistance Percentage (FMAP) that freed up state funds and over \$5 billion in SFSF funds made available in part to help stabilize budgets by minimizing cuts in education and other government services. California's current long-term fiscal prospects remain of concern. In November 2009, the Legislative Analyst's Office (LAO) estimated the size of the 2009-2010 and 2010-2011 budget shortfall to be about \$21 billion.<sup>11</sup> According to state officials, they do not anticipate receiving the same level of budgetary relief as a result of Recovery Act funds in the 2010-2011 state general fund budget as it did for the current fiscal year.

Overall, officials we met with from four local governments—Los Angeles, Sacramento, San Diego, and San Francisco—reported that Recovery Act funds have helped to preserve services, but they still need to address budget deficits for the remainder of fiscal year 2010 and next fiscal year. Officials in the localities we visited told us that they continue to face budgetary problems due to declines in state revenue and other local revenue sources such as sales and gas taxes and other fees. For example, San Francisco officials told us that they recently closed a deficit of about \$53 million in fiscal year 2010, and face an estimated budget shortfall of approximately \$483 million in fiscal year 2011. Los Angeles officials also told us that they expect the dire budget situation—a deficit of \$220 million for the remainder of fiscal year 2010 and a projected deficit of \$485 million for fiscal year 2011—to continue if structural changes to the city's operations do not occur. Los Angeles officials noted that the city has outlined a 3-year plan to address the deficit, which includes sound fiscal management, a focus on core services such as public works and safety,

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<sup>10</sup>The California state government fiscal year is July 1 to June 30.

<sup>11</sup>Included in the estimated \$21 billion budget shortfall is an estimated \$6.3 billion general fund deficit at the end of 2009-2010.

and exploring public-private partnerships. (Fig. 2 highlights selected information about the four local governments.)

**Figure 2: Information about Los Angeles, Sacramento, San Diego, and San Francisco**

	Los Angeles	Sacramento	San Diego	San Francisco
 Sacramento				
Estimated population (2008):	3,833,995	1,386,469	1,279,329	808,976
Unemployment rate, March 2010 (percent):	13.5	13.1	11.0	10.3
Budget fiscal year 2010 (dollars in billions):	6.9	4.3	2.9	6.6
Locality type:	Metropolitan city	County	Metropolitan city	City and county

Sources: U.S. Census Bureau and U.S. Department of Labor (demographic information); City of Los Angeles, County of Sacramento, City of San Diego, and City and County of San Francisco (funding information); and Map Resources (map); and GAO.

Note: Population data are from 2008. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

Recovery Act grants have helped local governments maintain services despite budget cuts. For example, officials in two of the local governments we visited—Los Angeles and San Francisco—told us that CHRP funds helped them maintain law enforcement services.<sup>12</sup> In Los Angeles, police department officials told us that cuts were being made across-the-board to address the city’s budget deficit—public safety represents about 70 percent of the city’s budget, which includes police, fire, and animal control. These officials stated that the department was facing a budget deficit of about \$84 million with a hiring freeze for civilian personnel, and the receipt of approximately \$16 million in CHRP funds helped mitigate the difficult budget situation. In particular, CHRP funds helped Los Angeles to hire 50 new officers, which would not have been funded this fiscal year without Recovery Act funds. San Francisco was also awarded about \$16 million in CHRP funds to help maintain its law enforcement workforce by hiring 50 new officers to fill vacancies caused by retirements and general attrition. Officials from the San Francisco Police Department said that without Recovery Act funds their department would not have

<sup>12</sup>While Sacramento and San Diego applied for CHRP grants, neither locality was awarded a grant through DOJ’s competitive grant process.

been able to maintain the size of its workforce due to the local budget situation.

For all of the local governments we visited, officials reported that Recovery Act grants helped to fund existing programs. For example, San Diego officials reported that the city had been awarded about \$40 million in Recovery Act grants including funding to continue the city’s energy-efficiency improvement efforts. Table 5 shows the types of on-going programs funded by Recovery Act grants awarded to the four localities we visited.

**Table 5: Amount and Types of Recovery Act Grants Awarded to Selected Local Governments as of March 31, 2010**

Local government	Amount of Recovery Act grants awarded (dollars in millions)	Types of programs funded
Los Angeles	\$596	Anticrime programs, community development projects, energy-efficiency projects, homelessness and foreclosure relief, purchases of buses, and public housing rehabilitation
Sacramento	88	Law enforcement programs such as gang suppression and prevention of Internet crimes against children, energy-efficiency improvements, and airport security improvements
San Diego	40	Community development projects, homelessness prevention programs, energy-efficiency improvements, and law enforcement
San Francisco	437	Community development projects, workforce stabilization programs, improvements to local hospitals, energy-efficiency improvements, public works projects, and airport improvements

Source: GAO analysis of information from the City of Los Angeles, the County of Sacramento, the City of San Diego, and the City and County of San Francisco.

Note: Funding awards include both Recovery Act formula and competitive grants directly awarded to localities.

## Various State Entities Are Conducting Oversight Activities to Help Ensure Appropriate Use of Recovery Act Funds

As California gained more experience in implementing the Recovery Act during the past year, state oversight entities have taken actions to evaluate and update controls and guidance related to Recovery Act funds. For example, the Task Force prepared and issued more than 30 *Recovery Act Bulletins* to provide instructions and guidelines to state agencies receiving Recovery Act funds, on topics ranging from Recovery Act recipient reporting requirements to appropriate cash-management practices. The California Recovery Act Inspector General conducted several reviews aimed at determining if departments or local agencies properly accounted for and used Recovery Act funds in accordance with Recovery Act requirements and applicable laws and regulations. In addition, the Inspector General published an advisory on contractor monitoring, which

included suggested steps to ensure that contractors perform in accordance with contract terms and to reduce the potential of fraud. The Inspector General also coordinated seven fraud prevention and detection training events throughout the state for state and local agencies and the service-provider community, with presentations from federal agencies on measures to avoid problems and prevent fraud, waste, and abuse. Over 1,000 state and local agency staff attended training events, which were also available through a “Webinar.”

As of May 2010, the State Auditor published nine letters or reports on the results of early testing or preparedness reviews, or both, conducted on 32 Recovery Act programs at 14 state departments that are administering multiple Recovery Act programs. These audit reports resulted in numerous recommendations to state agencies aimed at improving oversight of Recovery Act funds. Table 6 provides a summary of several of the State Auditor’s findings related to Recovery Act programs that we have reviewed. Additionally, the State Auditor volunteered to participate in an OMB Single Audit Internal Control project. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project’s guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits.<sup>13</sup> Sixteen states volunteered for the project, including California, whose auditors issued their interim reports on internal control for selected major Recovery Act programs by December 31, 2009 and a corrective action plan to the appropriate federal agency by January 31, 2010.<sup>14</sup>

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<sup>13</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act.

<sup>14</sup>In addition to California, the following states volunteered to participate in the project: Alaska, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia.

**Table 6: State Auditor Reviews of Selected Recovery Act Programs**

Recovery Act program	Administering state agency	Selected State Auditor findings and recommendations
JAG	Cal EMA	<p>Cal EMA is moderately prepared to administer its JAG Recovery Act award.</p> <p>Cal EMA should take steps to promptly execute subgrant agreements.</p> <p>Cal EMA should also plan its monitoring activities to ensure it meets Recovery Act JAG program requirements.</p> <p>Cal EMA should develop procedures to ensure reporting requirements are met.</p>
Weatherization Assistance Program	CSD	<p>CSD needs to improve its controls over cash management for the program.</p> <p>CSD should develop and implement the necessary standards for performing weatherization activities and develop a plan for monitoring subrecipients.</p>
State Fiscal Stabilization Fund–Education Stabilization Funds	CDE	<p>CDE should implement adequate controls to ensure interest is appropriately remitted to the federal government.</p>

Source: GAO analysis of information provided by the California State Auditor.

California agency officials and internal auditors from state departments that manage public safety, workforce, and environmental programs, are engaged to various degrees in the oversight and auditing of Recovery Act funds. State agencies we met are using existing internal controls to monitor and oversee Recovery Act funds, but some also implemented new procedures specifically for Recovery Act–funded activities and projects. For instance, CDPH reported using existing monitoring activities for all SRF projects, which includes on-site inspections and reviewing reimbursement requests. In addition to CDPH’s normal protocols for overseeing SRF projects, CDPH officials told us that new processes are in place for Recovery Act–funded projects including establishing new staff positions utilizing different administrative classifications for financial reviews of contracts and claims, periodic reviews of subrecipients’ construction contracts, and additional staff added specifically to handle reporting and tracking for Recovery Act projects. Table 7 provides an overview of selected oversight and auditing activities of several of the agencies administering programs we reviewed.

**Table 7: Selected Oversight Activities by State Agencies**

State agency	Recovery Act program	Oversight activities
Cal EMA	JAG	<ul style="list-style-type: none"> <li>Cal EMA plans to conduct extended-scope monitoring of approximately 300 of the nearly 1,500 active subrecipients of JAG state awards passed through the state annually to local agencies.</li> <li>Cal EMA has developed a targeted compliance questionnaire and plans to distribute it to a representative sample of subrecipients receiving Recovery Act funds to help ensure compliance with Recovery Act requirements. When fully staffed, the Monitoring Division has the capacity to review up to 1,400 targeted compliance questionnaires annually.</li> </ul>
CDPH	Drinking Water SRF	<ul style="list-style-type: none"> <li>CDPH is following existing monitoring activities for Recovery Act projects. These activities include obtaining and compiling subrecipient reports, on-site inspections, and reviewing reimbursements.</li> <li>CDPH implemented new processes including Recovery Act site reviews in addition to normal project inspections to ensure Recovery Act requirements have been addressed, utilizing staff positions at different administrative classifications for financial review of contracts and claims, periodic reviews of subrecipients' construction contracts, and additional staff added specifically to handle reporting and tracking for Recovery Act projects.</li> </ul>
EDD	WIA Dislocated Worker Program	<ul style="list-style-type: none"> <li>Each local Workforce Investment Board is visited annually and reviewed for fiscal and program compliance. Visits include case reviews and participant interviews.</li> <li>At the end of April 2010, EDD completed monitoring reviews of 46 of the 49 Local Workforce Investment Areas, with the remaining 3 to be completed in June 2010.</li> <li>EDD established separate ledger accounts and cost codes for Recovery Act funds to ensure proper tracking and accountability.</li> </ul>
WRCB	Clean Water SRF	<ul style="list-style-type: none"> <li>WRCB is following existing oversight and internal control processes for Recovery Act SRF projects including: communicating regularly with subrecipients, reviewing reimbursement requests, and requiring subrecipients to conduct financial statement audits and certify that their projects operate correctly or meet performance targets.</li> <li>WRCB has implemented new monitoring activities including enhanced project inspections using a Recovery Act checklist recently developed by EPA, periodic site visits at various milestones, and review of key documents such as facilities planning, design, and bid documents.</li> </ul>

Source: GAO analysis of information provided by Cal EMA, CDPH, EDD, and WRCB.

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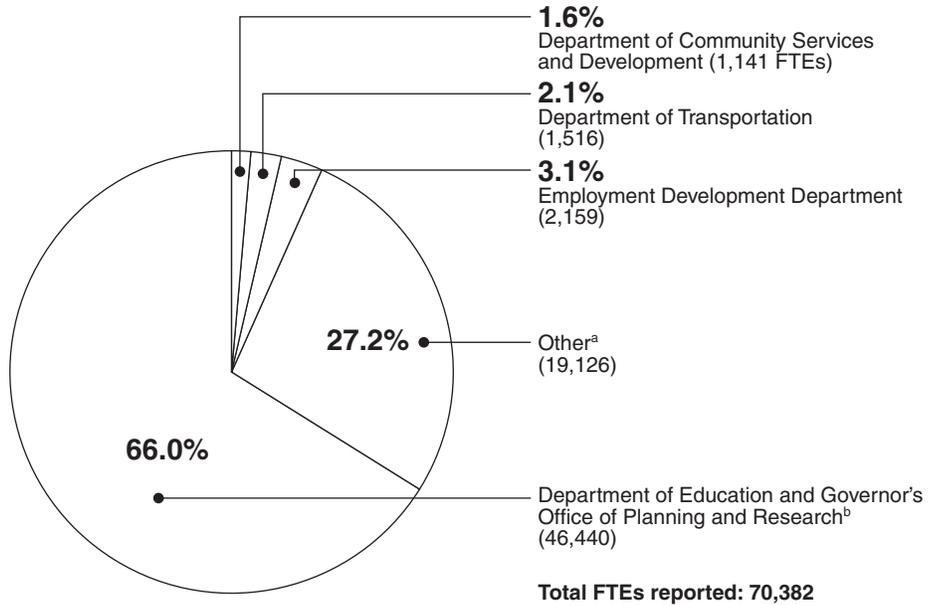
## California Reported over 70,000 Jobs for the Third Recipient Report, but Questions Remain about Education Job Estimates

According to Recovery.gov, as of April 30, 2010 California recipients reported funding 70,382 FTEs with Recovery Act funds during the third quarterly reporting period, which covers the period January 1, 2010, to March 31, 2010; however, problems identified with the reporting and review of the jobs data by CDE call into question the reliability of the data. Recipients are to report the total amount of Recovery Act funds received, the amount of funds expended or obligated to projects or activities, a detailed list of these projects or activities, and estimated job numbers, among other things for any quarter in which they receive Recovery Act funds directly from the federal government. The Task Force established a centralized reporting system for Recovery Act funds received through state agencies, while other recipients that receive Recovery Act funds directly from federal agencies report through the national database, FederalReporting.gov.<sup>15</sup> Figure 3 provides further details on the number of FTEs selected state departments reported. According to the Task Force, it performs data quality checks on information reported by state agencies every quarter, such as identifying reports in which FTEs were reported with no expenditures or instances in which expenditures divided by FTEs yielded unreasonable costs per FTE. The Task Force works with state agencies to correct any errors found by these data quality checks. During the most recent reporting period, the Task Force migrated the reporting tool it had been using to collect state agency data—the California ARRA Accountability Tool (CAAT)—to a new platform to better meet Recovery Act recipient reporting and other federal and state requirements. Task Force officials stated that the new platform allowed the state to collect additional information from recipients and helped reduce human entry errors with features, such as prepopulated pull-down menus and locks on data fields (e.g., D-U-N-S numbers). According to Task Force officials, the third reporting period, using the new platform, went more smoothly than prior periods.

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<sup>15</sup>Through the Task Force's reporting system, 35 California state agencies reported funding a total of over 53,000 FTEs during the third quarterly reporting period.

**Figure 3: FTEs Reported by California State Program Agencies as Recipients of Recovery Act Funding as of April 30, 2010**



Source: Recovery.gov.

Notes: Totals may not add to 100 percent due to rounding.

<sup>a</sup>Other includes other state agencies, such as the California Tax Credit Allocation Committee, CDPH, and WRCB, and recipients that received Recovery Act funding directly from federal agencies.

<sup>b</sup>Estimates for the Department of Education and the Governor's Office of Planning and Research were combined because the Office of Planning and Research acts as the pass-through agency for education funds under the SFSF.

Concerns remain about the number of education-related jobs being reported by CDE, in part, because some LEAs are underreporting vendor jobs. As we reported on March 5, 2010, seven LEAs we met with awarded contracts using Recovery Act funds. However, five of the LEAs either did not report or underreported vendor jobs associated with these contracts. For example, an official from one of these LEAs reported that, for the second quarterly report, the number of vendor jobs they reported increased from 12 to 79 when they recalculated their numbers after they learned that job estimates needed to be collected from all vendors awarded Recovery Act contracts.<sup>16</sup> According to LEAs we met with, they

<sup>16</sup>On March 5, 2010, we testified that some LEAs did not collect and report job estimates from vendors with payments of less than \$25,000 because they erroneously applied CDE's guidance on vendor identification to determine which vendor jobs to report.

received reporting guidance from CDE, but did not receive clear guidance on calculating and reporting vendor jobs funded by the Recovery Act. Although CDE has issued several letters to LEAs with reporting guidance—including stating that jobs counted should include jobs created or retained by other entities such as sub-awardees and vendors—and has posted these correspondences to its Web page, LEAs we met with since our last report continue to be confused by vendor reporting requirements. We met with one LEA that told us that it was not aware of the requirement to report vendor jobs and therefore did not report these jobs despite awarding Recovery Act contracts to vendors for an estimated \$3 million, many of which are for services. According to officials from the LEA, they never received specific guidance stating reporting vendor jobs was required, or any guidance describing how to gather the information or what criteria to use. Another LEA told us it did not report any jobs associated with certain IDEA Recovery Act–funded contracts because, according to CDE guidance, the contractors are considered subrecipients, not vendors, and therefore the LEA thought the jobs were not required to be reported. CDE officials stated that, while most of these contractors would be considered subrecipients rather than vendors, the jobs funded by them should be reported in either case.

CDE plans to issue additional guidance to LEAs on vendor jobs reporting. In a letter to the House of Representatives Committee on Oversight and Government Reform dated April 2, 2010, addressing our concern on inconsistency of vendor jobs reporting, among other issues, CDE noted that it will revise its guidance accordingly. CDE stated that it will provide clarifying guidance when it communicates with LEAs in May 2010 regarding the next reporting period. In particular, CDE plans to include language specifying that all vendor jobs must be reported, not just the jobs of vendors receiving more than \$25,000.<sup>17</sup> It is important for CDE, as the prime recipient of Recovery Act education funds, to review its existing guidance, provide detailed information to LEAs on vendor jobs reporting prior to the beginning of the next reporting cycle, and follow up with LEAs on the proper implementation of its guidance to help ensure California’s overall job estimates are accurate.

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<sup>17</sup>Under OMB guidance, prime recipients are required to generate estimates of job impact by directly collecting specific data from subrecipients and vendors on jobs resulting from a sub-award. To the maximum extent practicable, prime recipients are to collect information from all subrecipients and vendors in order to generate the most comprehensive and complete job impact numbers available. Job estimates regarding vendors are to be limited to direct job impacts and not include “indirect” or “induced” jobs.

Additionally, data reliability strategies used by CDE to review information submitted by LEAs did not always identify questionable LEA job estimates. According to CDE officials, they use a variety of data checks to monitor the accuracy of the Recovery Act information submitted by LEAs. These strategies included checking LEA jobs data for reasonableness. For example, CDE reported that it compared the number of FTEs reported by an LEA to the amount of the LEA's grant award, using \$50,000 as a reasonable amount to fund 1 FTE. According to CDE, if questionable data were identified, CDE called LEAs to follow up. However, when we reviewed data reported by several large LEAs, we found that one LEA—that received over \$35 million in Recovery Act funds and expended over \$15 million by the end of the third reporting period—reported no teacher or administrative jobs. According to officials from this LEA, although they used Recovery Act funds for teacher and administrative jobs, they did not report these jobs because they believed the state would have provided funding for those jobs if the Recovery Act had not. Therefore, they concluded that no jobs were created or retained, which is not consistent with OMB's December 18, 2009 guidance that directs recipients to report the total number of jobs that were funded in the quarter by the Recovery Act.<sup>18</sup> Subsequent to our meeting with the LEA, CDE officials contacted the LEA to provide them with guidance. According to CDE officials, they did not instruct the LEA to correct its jobs estimate at that time, because the third-quarter reporting system had closed.<sup>19</sup> CDE advised the LEA to use the correct jobs methodology for the fourth round of reporting and worked with the LEA to correct the round three jobs data. However until CDE makes appropriate changes to its data-reliability process, it will not be in a position to identify this and other types of job estimate errors in future reporting periods. One approach CDE could pursue would be to review the reporting data and methodologies of the 10 largest LEAs, which would account for a large portion of Recovery Act funding, and could help CDE uncover systemic reporting problems. According to CDE, it will continue to work on improving its review techniques, including applying a data check to LEA vendor jobs and placing more focus on data checks of its 10 largest LEAs.

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<sup>18</sup>OMB, Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non Reporting Recipients, and Reporting of Job Estimates* (Washington, D.C.: Dec. 18, 2009).

<sup>19</sup>Although the reporting deadline had passed, the nationwide data system, FederalReporting.gov, was reopened for a period for corrections—for the third reporting cycle the period is from May 3 through June 14, 2010.

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Finally, during the third reporting cycle, CDE updated its second quarterly report during the corrections period that ended on March 15, 2010, by instructing LEAs to use OMB revised guidance on calculating FTEs for job estimates. As we reported in March 2010, CDE's job estimates for the second quarter recipient-reporting cycle had not been calculated using OMB's December 18, 2009, guidance. After the correction period, CDE's FTE estimates for the second reporting period increased from 49,887 to 50,973. Task Force officials did not report any challenges with CDE's ability to obtain and update the job estimates. In addition to the one LEA noted above, we met with four other LEAs to discuss their job calculation process and none of them reported difficulties understanding and implementing OMB's new guidance to revise their second reporting period estimates for nonvendor jobs.

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### State Comments on This Summary

We provided the Governor of California with a draft of this appendix on May 7, 2010.

In general, California state officials agreed with our draft and provided some clarifying information, which we incorporated, as appropriate.

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### GAO Contacts

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