United States Government Accountability Office

GAO

Report to the Congress

December 2009

RECOVERY ACT

Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (California)

GAO-10-232SP

Appendix II: California

Overview

This appendix summarizes GAO's work on the fourth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) 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

GAO's work in California included reviewing three specific programs funded under the Recovery Act—Highway Infrastructure Investment funds, Transit Capital Assistance Program, and Weatherization Assistance Program. These programs were selected primarily because they are in the process of obligating Recovery Act funds in California. Our work focused on the status of the programs' funding, how funds are being used, and issues that are specific to each program. In addition to these programs, we updated information 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 (ESEA), as amended, and Part B of the Individuals with Disabilities Education Act (IDEA), as amended. For descriptions and requirements of the programs we covered, see appendix XVIII of GAO-10-232SP.

We also met with the California Recovery Act Task Force (Task Force) to understand the state's experience in meeting Recovery Act reporting requirements and preparing the state's quarterly report in October 2009. In addition, we visited two California local governments to discuss the amount of Recovery Act funds each is receiving directly from federal agencies and to learn how those funds are being used. We chose to visit the city of Los Angeles and the county of Sacramento. We selected Los Angeles because it is Southern California's most populous city, with an unemployment rate above the state's average of 12.0 percent. We selected the county of Sacramento because it is located in Northern California's central valley, encompasses the State Capitol, and also has an unemployment rate above the state average.

What We Found

- **Highway Infrastructure Investment.** As of October 31, 2009, the U.S. Department of Transportation (DOT) Federal Highway Administration (FHWA) has obligated $2.079 billion of the $2.570 billion apportioned to California in Recovery Act funds and $90 million had been reimbursed by FHWA. The majority of these projects involve pavement widening and improvement projects, but the state is also using highway infrastructure funds for numerous safety and transportation enhancement projects. California has awarded contracts for 364 projects worth $1.647 billion and advertised an additional 119 projects for bid. Overall, 90 percent of Recovery Act contracts are being awarded for less than the state engineer's estimated costs and the California Department of Transportation (Caltrans) plans to request FHWA obligate excess funds for additional highway projects. While the pace of federal outlays for California highway projects continues to be slower than the national average, the amount reimbursed grew from $22 million in September to $90 million as of October 31, 2009, and officials expect it to increase in the near future as a number of large state highway projects are under way.

- **Transit Capital Assistance Program.** As of November 5, 2009, DOT's Federal Transit Administration (FTA) has obligated $916 million of the $1.002 billion in Transit Capital Assistance Program Recovery Act funds apportioned to California and urbanized areas in the state for transit projects. Transit agencies in California are using Transit Capital Assistance Program Recovery Act funds for preventive maintenance, vehicle purchases and rehabilitation, equipment replacement, and large capital projects. The transit agencies we visited, the San Francisco Municipal Transportation Agency (SFMTA) and the San Diego Association of Governments (SANDAG), are in the process of awarding contracts for Recovery Act funded projects and are using Transit Capital Assistance Program Recovery Act funds for a variety of capital projects, which otherwise might not have been funded until future fiscal years.

- **Selected education programs.** As of October 31, 2009, California has distributed about $3.2 billion in Recovery Act funding to local education agencies (LEA), and special education local plan areas through three education programs. This includes SFSF education stabilization funds ($2.5 billion), ESEA Title I, Part A funds ($463 million), and IDEA, Part B funds ($269 million). California LEAs are generally using Recovery Act funding to retain jobs for teachers, teacher aides, and other staff, as well as for training and purchasing instructional materials and equipment. However, as we have previously reported, Recovery Act funding was distributed to some LEAs prior to their being ready to spend it, and the concerns we raised in our previous reports about cash management, including the appropriate process for calculating interest on federal cash balances, have yet to be fully resolved.

- **Weatherization Assistance Program.** California awarded almost $57 million to 35 local service providers throughout the state for Recovery Act weatherization activities. The state has required service providers to adopt an amendment to their Recovery Act weatherization contracts to ensure that they comply with Recovery Act requirements before they are provided Recovery Act funds to weatherize homes. Most service providers did not adopt the amendment by the October 30 deadline, due to ongoing negotiations with the state regarding concerns about some amendment provisions. On October 30, the state announced it would issue a modified amendment within 30 days incorporating changes agreed upon by the state and service providers. As of November 10, no homes in California had been weatherized with Recovery Act funds.

- **Recipient reporting.** Task Force officials believe that, using their centralized reporting system, they successfully reported jobs created or retained as a result of Recovery Act funds received through state agencies, but faced several challenges in doing so. One such challenge related to differing interpretations of federal guidance on jobs reporting, which resulted in variations in the number of jobs reported. On behalf of the Task Force, the state's Chief Information Officer (CIO) was responsible for collecting the data from state agencies, validating it, and uploading the data to www.federalreporting.gov (FederalReporting.gov).

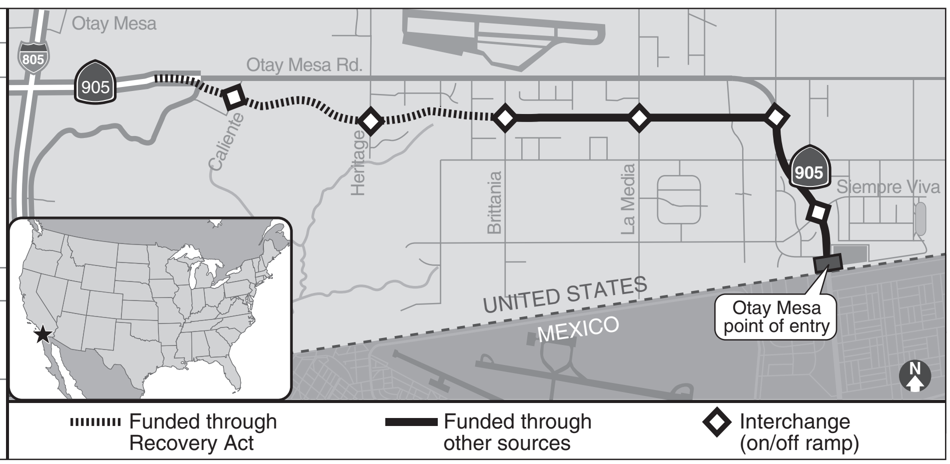
- **Localities' use of Recovery Act funds.** Los Angeles City and Sacramento County reported using Recovery Act funds to preserve the delivery of essential local government services. For example, Los Angeles has been awarded $178.6 million in Recovery Act grants and Sacramento $21.0 million that are funding airport improvement, anticrime programs, art agencies, community development projects, community policing, diesel emission reduction, energy efficiency projects, homelessness and foreclosure relief, port security, purchases of buses, and public housing rehabilitation. According to officials in both localities, activities funded with Recovery Act funds will not require ongoing financial support after the funds are spent.

Over 80 Percent of Apportioned Highway Funds Have Been Obligated and California Has Awarded More than 300 Highway Contracts

The U.S. Department of Transportation's (DOT) Federal Highway Administration (FHWA) apportioned about $2.570 billion in Recovery Act funds to California in March 2009. As of October 31, 2009, more than 80 percent of these funds had been obligated ($2.079 billion)[1] and $90 million had been reimbursed by FHWA. As of October 31, 2009, Caltrans awarded 364 contracts for state and local highway projects with a total value of $1.647 billion. Of these, 49 have been completed and 250 are under construction. Contracts have not yet been awarded for an additional 119 projects or proposals that are in the bid review process. As part of our review, we visited the site of a new road construction project intended to reduce congestion on State Route 905 in San Diego County. Construction on the Recovery Act-funded portion of the project began in July 2009 and, according to Caltrans, the construction phases of the project are expected to be completed by summer 2012 (see fig. 1).

Figure 1: Construction of State Route 905 in San Diego County

Project: Construction of new road
Lead agency: Caltrans
Description: Construction of 3.4 miles (out of approximately 6.2 miles) of a new six-lane freeway, State Route 905, from Interstate 805 to the Otay Mesa Port of Entry at the U.S.-Mexico Border. The general purpose of the route is to reduce congestion; provide for the effective transportation of people, goods, and services; and improve the mobility of local, regional, interregional, and international traffic.
Location: San Diego County, California
Recovery Act Funds: $78.3 million obligated to Caltrans for this phase of the project, approximately 13 percent of the total estimated cost for all phases.
Status: Caltrans awarded a contract for this phase of the project on May 8, 2009 and construction began in July 2009.



Source: Caltrans; Map Resources; GAO.

Our analysis of contract bid data for state highway projects found that approximately 90 percent of Recovery Act bids on contracts issued as of October 31, 2009, have come in under state estimated costs.[2] On average,

[1]This does not include obligations associated with $27 million of apportioned funds that were transferred from FHWA to FTA for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

[2]Although we examined the data for obvious discrepancies, the data we collected are self-reported by individual states. Therefore, the data may not be complete and we consider the reliability of these data undetermined.

these contracts have been awarded for approximately 26 percent less than the state engineer's estimated costs for the project. According to Caltrans officials, lower material costs and increased competition among contractors due to the weak economy in California are among the reasons bids are under the state engineer's estimated costs. Caltrans plans to request that FHWA obligate funds made available as a result of savings from receiving bids lower than state estimated costs and use those funds for other projects, specifically projects from its State Highway Operations and Protection Program (SHOPP) and Highway Maintenance Program. As of November 1, 2009, FHWA deobligated approximately $108.5 million from state and local projects, which Caltrans plans to use to fund 16 additional state projects—13 SHOPP and 3 Highway Maintenance Program projects—for which additional funding has been sought using deobligated Recovery Act funds.

We discussed contracts for two Recovery Act-funded highway projects, including State Route 905 and a resurfacing project in Burlingame, with state and local officials (see table 1). According to Caltrans officials we spoke with about these contracts, California continues to use its existing contracting procedures to help ensure funds are used appropriately. As we reported in September, Caltrans officials stated that California has well-defined contract requirements for all highway projects, and Caltrans awards all highway contracts competitively to the lowest responsive and responsible bidder. Caltrans officials also stated that requirements specific to the Recovery Act, such as reporting requirements, were added to Recovery Act contracts.

Table 1: Summary of Contract Information for Two Highway Projects Visited

State Route 905 project	Resurfacing of Airport Boulevard and Trousdale Drive in Burlingame, California
• Construction of a 3.4-mile segment of a new six-lane freeway in San Diego County, California • Estimated contract value: $57 million • Fixed unit price contract awarded competitively; 6 bidders • Estimated project duration: approximately 4 years or 990 days	• Road resurfacing project • Estimated contract value: $660,731 • Fixed unit price contract awarded competitively; 10 bidders • Estimated project duration: August to September 2009; completed September 18

Source: GAO analysis of information provided by Caltrans and the City of Burlingame.

According to FHWA data, as of October 31, 2009, the rate of reimbursement for California highway projects, 4.3 percent ($90 million) of the $2.079 billion obligated to California, is lower than the amount reimbursed nationwide, 18.4 percent ($3.661 billion) of the $19.88 billion obligated. However, federal reimbursements in California have increased since September 2009 from $22 million to $90 million, and Caltrans officials stated that more reimbursements are expected as a number of large state highway projects begin construction in the coming months. Caltrans officials attributed the lower reimbursement percentage to having a majority of its projects administered by local governments, which are often reimbursed more slowly than state-administered projects.[3] Thus far, most of the reimbursements, approximately 93 percent ($84.5 million) of the $90 million, are for state projects. Caltrans officials noted that locally-administered highway projects may take longer to reach the reimbursement phase than state projects due to additional steps required to approve local highway projects. For example, highway construction contracts administrated by local agencies call for a local review and local public notice period, which can add nearly 6 weeks to the process. In addition, Caltrans officials stated that localities with relatively small projects tend to seek reimbursement in one lump sum at the end of a project to minimize time and administrative cost, which can contribute to reimbursement rates not matching levels of ongoing construction.

Caltrans has also been working to adhere to revised FHWA guidance for meeting Recovery Act requirements in two areas: (1) identification of economically distressed areas and (2) maintenance of effort.

- Based on findings in our July 2009 Recovery Act report that state DOTs, including Caltrans, used variable methodologies to identify economically distressed areas, we recommended that DOT provide clear guidance. Caltrans revised its economically distressed area determination using guidance issued by FHWA in consultation with the Department of Commerce on August 24, 2009. According to the recalculation, all 58 counties in California are designated as economically distressed, which results in no change to how Caltrans funds and administers Recovery Act projects.

- Under the Recovery Act, states are required to certify that they will maintain the level of spending planned on the day the Recovery Act

[3] Of the $2.570 billion apportioned to California under the Recovery Act, $1.799 billion (70 percent) was allocated to state-level projects and another $771 million (30 percent) was suballocated to local projects. According to state sources, under a state law enacted in late March 2009, 62.5 percent of the $2.570 billion ($1.606 billion) will go to local governments for projects of their selection.

was enacted. On September 24, 2009, FHWA issued supplemental guidance on maintenance of effort (MOE) requirements, which clarified that states should include in their MOE certified amounts the funding the state provides to local governments for transportation projects. Caltrans officials stated that they are working with FHWA on this issue and are prepared to submit a revised MOE certification when requested. Caltrans officials do not anticipate difficulty in meeting the MOE requirement even after adjusting the certification amount to include those funds.

Transit Agencies in California Are in the Process of Awarding Transit Capital Assistance Program Recovery Act Contracts for a Variety of Projects

In March 2009, $1.002 billion in Transit Capital Assistance Program Recovery Act funds were apportioned to California and urbanized areas in the state for transit projects. As of November 5, 2009, $916 million had been obligated. Transit agencies in California are using Transit Capital Assistance Program Recovery Act funds for preventive maintenance, vehicle purchases and rehabilitation, equipment replacement, and large capital projects.

The two transit agencies we visited—San Francisco Municipal Transportation Agency (SFMTA) and San Diego Association of Governments (SANDAG)—are using their Transit Capital Assistance Program Recovery Act funds for a variety of capital projects, which otherwise may not have been funded until future fiscal years. Officials at both SFMTA and SANDAG stated that project readiness and the relative need for projects within the region informed project selection.

- SFMTA distributed its Transit Capital Assistance Program Recovery Act funds, approximately $72 million, for 13 projects, including preventive maintenance and equipment replacement. For example, SFMTA plans to spend $11 million in Transit Capital Assistance Program Recovery Act funds to replace fare collection equipment. SFMTA officials stated that the availability of Transit Capital Assistance Program Recovery Act funds allowed the agency to move forward on high-priority fleet maintenance projects that could not have been funded with their annual FTA apportionment.

- SANDAG distributed approximately $70 million in Transit Capital Assistance Program Recovery Act funds among four large construction projects, including replacement of a segment of a railroad bridge and construction of a transit center (see table 2). SANDAG officials stated that the bridge replacement project would not have been funded for years without the help of Transit Capital Assistance Program Recovery Act funds.

Table 2: Overview of SANDAG Transit Capital Assistance Program Recovery Act Projects

Project name	Project description	Transit Capital Assistance Program Recovery Act funds	Total estimated project cost	Percent of project funded with Transit Capital Assistance Program Recovery Act funds (%)
System contact wire	Investigate existing contact wire conditions on the South Line of the San Diego Trolley and replace worn out sections of contact wire from 12th and Imperial to San Ysidro	$12,000,000	$17,643,000	68
Blue Line upgrade	Design and construction for trolley and trackway modifications, including stations to support new low-floor vehicle operations.	44,560,000	114,695,000	39
Railroad trestle bridge replacement	Replace the north segment of a railroad trestle bridge in the Los Angeles to San Diego rail corridor that is used by Amtrak, Burlington Northern Santa Fe, and Metrolink trains.	12,000,000	12,000,000	100
San Luis Rey Transit Center	Construct a 12-bay transit center in suburban North San Diego County.	1,500,000	2,700,000	56
Total		**$70,060,000**	**$147,038,000**	

Source: GAO analysis of SANDAG data.

The transit agencies we visited are in the process of awarding contracts for Recovery Act-funded projects. SFMTA officials stated that they plan to award contracts for all projects receiving Transit Capital Assistance Program Recovery Act funds by November 30, 2009, and SANDAG officials reported that one project had been advertised for bid and the other three projects would be advertised for bid in the coming months. Transit agency officials stated that they will use existing processes, including site inspections, to manage Recovery Act contracts.

Recovery Act Education Funding Is Supporting Jobs and Programs, but Issues Surrounding Cash Management Practices Have Yet to Be Resolved

As of October 31, 2009, California had distributed approximately $3.2 billion in Recovery Act funds to local educational agencies (LEA) and other K-12 state funded learning institutions through the three education programs included in our review— ESEA Title I, Part A; IDEA, Part B; and SFSF. LEAs in California report that they are using Recovery Act funding to retain jobs for teachers and other staff, to provide training, and to buy a variety of instructional materials and equipment. However, as previously reported, funds were distributed before some LEAs were ready to spend them, and the cash management issues we raised in previous reports, including the appropriate method for calculating interest on federal cash balances, have not been fully resolved.

LEAs Plan to Use Recovery Act Funds to Help Retain Jobs and Improve Programs but Will Still Lose Staff Overall

We surveyed a representative sample of LEAs— generally school districts— nationally and in California about their planned uses of Recovery Act funds. Table 3 shows California and national survey results on the estimated percentages of LEAs that (1) plan to use more than 50 percent of their Recovery Act funds from three education programs to retain staff, (2) anticipate job losses even with SFSF monies, and (3) reported a total funding decrease of 5 percent or more since last school year. Notably, two-thirds of California LEAs reported a funding decrease of more than 5 percent versus 17 percent of LEAs nationwide.

Table 3: Selected Results from GAO Survey of LEAs

	Estimated percentages of LEAs	
Responses from GAO survey	**California**	**Nation**
Plan to use more than 50 percent of Recovery Act funds to retain staff		
IDEA funds	17	19
Title I funds	29	25
SFSF funds	52	63
Anticipated job losses, even with SFSF funds	50	32
Reported total funding decrease of 5 percent or more since school year 2009-2009	67	17

Source: GAO survey of LEAs.

Notes: Percentage estimates for California have margins of error, at the 95 percent confidence level, of plus or minus 11 percentage points or less. The nationwide percentage estimates have a margin of error of plus or minus 5 percentage points.

We visited two LEAs in California—the largest LEA in the state and a small charter school—to find out more detail about how they are spending Recovery Act funds (see table 4). Los Angeles Unified School District (LA Unified) serves over 600,000 students and has received about $530 million in Recovery Act funds for the three programs we examined. Alvina Elementary Charter School, in Fresno County, (also an LEA) serves about 200 students and has received about $88,000 in Recovery Act funds for the ESEA Title I, Part A and SFSF programs.

Table 4: Planned Uses of Recovery Act Funds at the LEAs Reviewed by GAO

LEA	ESEA Title I, Part A	IDEA, Part B	SFSF
LA Unified	Individual school councils determine how funds are used and select from a district approved list that includes staff positions (such as teacher, teacher's assistant, school nurse, and psychiatric social worker); parent training; instructional materials; and classroom equipment.	Funds are being used to • reduce reliance on contracting by training on-site staff; • train teachers to meet the instructional, social, emotional, and behavioral needs of students with disabilities integrated into the general education program; • provide special education leadership training for elementary and secondary site administrators; and • train teachers in practices to improve outcomes for students identified with autism.	All funds are being used for salaries, including salaries for 2,558 teachers and 210 administrative and other support positions.
Alvina	Funds are being used to increase K-3 instructional aide hours and to hire a new teacher and a new instructional aide, allowing Alvina to increase student enrollment.	No IDEA funds received.	Funds are being used for staff retention, hiring paraprofessionals, and buying math text books.

Source: GAO analysis of information provided by LA Unified and Alvina.

Ongoing Cash Management Issues Have Yet to Be Fully Resolved

In our September 2009 report, we highlighted concerns related to ESEA Title I, Part A cash management practices of the California Department of Education (CDE) and LEAs, specifically related to early distribution of funds to LEAs and the calculation and remittance of interest on unspent cash balances.[4] At that time, CDE was uncertain whether unspent ESEA

[4]While our prior report focused on ESEA Title I, Part A funds, these cash management concerns extend to other Recovery Act funds drawn down by CDE, as reported by the U.S. Department of Education's Office of Inspector General in its October 2009 Alert Memorandum–ED-OIG/L09J0007.

Title I, Part A Recovery Act balances could be offset against unreimbursed expenses in LEAs' non-Recovery Act ESEA Title I funding accounts for purposes of calculating the interest due on unspent federal funds. U.S. Department of Education (Education) officials had not yet made a formal determination on this approach at the time of our September report. In our recent discussions, Education officials told us that unreimbursed expenses for one federal fund can be offset against positive cash balances in another federal fund—including, for example, regular ESEA Title I and Recovery Act ESEA Title I fund balances. Education officials told us they will finalize their decision on CDE's proposed interest calculation procedures once they receive the proposal in writing from CDE.

California Has Awarded Contracts to Local Service Providers, but Providers' Concerns about Contract Amendments Have Delayed Home Weatherization

The Recovery Act appropriated $5 billion for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes, to be spent over a 3-year period. 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. On September 22, 2009, DOE obligated all the funds allocated to the states, but it has limited the states' access to 50 percent of these funds.[5] DOE allocated about $186 million of Recovery Act funds for weatherization in California.[6] By June 2009, DOE had provided 50 percent—about $93 million—of these funds to the California Department of Community Services and Development (CSD), the state agency responsible for administering the state's weatherization program. Of this amount, CSD retained about $16 million to support oversight, training, and other state activities. CSD also awarded almost $57 million to 35 local service providers throughout the state[7] for planning, purchasing equipment, hiring

[5]DOE currently plans to make the remaining funds available to the states once 30 percent of the housing units identified in the state plans are weatherized.

[6]California also received about $14 million for its fiscal year 2009 annually appropriated Weatherization Assistance Program.

[7]CSD delivers weatherization services through a network of local service providers, including community action agencies, nonprofit organizations, and local governments.

and training, and weatherizing homes.[8] As of November 10, CSD and its service providers spent approximately $3 million of Recovery Act funds on weatherization-related activities.

CSD requires service providers to adopt an amendment to their Recovery Act weatherization contracts to ensure that they comply with the Recovery Act, including certifying that they comply with the Davis-Bacon Act, before providing Recovery Act funds to them to weatherize homes. Only two providers adopted the amendment by the initial October 30 deadline. According to CSD, many providers did not adopt the amendment because they objected to some of its provisions, including those pertaining to compensation, cost controls, and performance requirements. As a result, CSD entered into negotiations with providers and, on October 30, announced it will release a modified amendment incorporating agreed upon changes within 30 days. CSD also announced steps that providers can take to accept the modified amendment in advance of its formal issuance and begin weatherizing homes sooner. As of November 10, nine providers had adopted the modified amendment in advance of the formal issuance, but no homes in California had yet been weatherized with Recovery Act funds.[9]

We selected 4 of the 35 service providers to discuss their Recovery Act weatherization programs[10] (see table 5). Each of these providers received a substantial increase in weatherization funding through the Recovery Act, and they vary in size and expected start dates for weatherizing homes. Officials from these providers initially expressed concerns about wage rates, payroll, cost controls, and other provisions of the CSD contract amendment. Subsequently, these officials told us that they anticipated their concerns would be addressed by the forthcoming modifications.

[8]CSD has not yet awarded the remaining funds—approximately $20 million—to service providers for parts of Alameda County, parts of Los Angeles County, Santa Clara County, San Francisco County, and San Mateo County. For these areas, CSD is either seeking a new service provider or is withholding funds pending the completion of an investigation of the designated service provider.

[9]CSD currently estimates that 50,330 homes will be weatherized with Recovery Act funds in California. However, as of November 10, 2009, California had not begun measuring the impact of its weatherization program because no homes in California had been weatherized with Recovery Act funds.

[10]We selected these providers to capture a variety of service area characteristics, such as the amount of Recovery Act funds allocated; the number of clients served; climate zones; and a mix of rural, urban, and suburban areas.

Three of these providers adopted, or plan to adopt, the modified amendment in advance of the formal issuance—one provider met the October 30 deadline. Officials from the remaining provider stated that they will wait for the formal issuance. Officials from each of these providers stated, and CSD agreed, that they have processes and plans aimed at ensuring that funds are used for their intended purposes and in accordance with Recovery Act requirements. In addition, each has created new employment positions and has plans to hire additional employees in order to implement the Recovery Act weatherization program.

Table 5: Overview of Selected Local Service Providers, as of November 10, 2009

Service provider	Project GO, Inc.	Community Action Partnership of Orange County	Community Action Partnership of Riverside County	Pacific Asian Consortium in Employment
Service area	Placer County	Orange County	Riverside County	Parts of Los Angeles County
Organization type	Nonprofit	Community action agency	County government	Nonprofit
Primary labor and supply source	In-house	In-house	Subcontractors	In-house
2009 annually appropriated weatherization allocation	$87,851	$485,704	$552,737	$568,413
Recovery Act weatherization allocation	$998,278	$6,002,530	$7,616,998	$7,034,492
Recovery Act weatherization funds awarded	$498,516	$2,997,522	$3,803,748	$3,512,859
Recovery Act weatherization funds spent	$40,164	$110,241	$450,428	$107,969
Number of homes projected to be weatherized with Recovery Act funds	360	550	1680	1700
Estimated date to begin weatherizing homes with Recovery Act funds	January 2010	Between January and March 2010	November 2009	December 2009

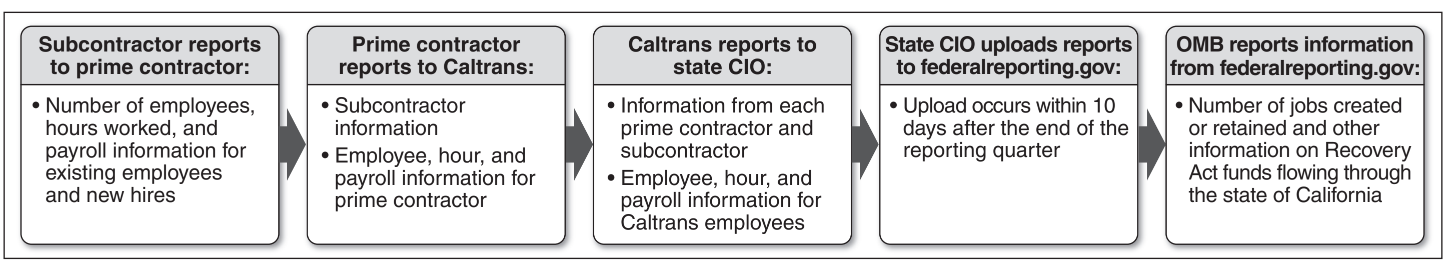
Source: CSD; Project GO, Inc.; Community Action Partnership of Orange County; Community Action Partnership of Riverside County; and Pacific Asian Consortium in Employment.

Despite Challenges, California Officials Believe That They Successfully Met Recovery Act Reporting Requirements

California Recovery Act Task Force (Task Force) officials believe that, while facing some challenges, overall, they were successful in reporting jobs created or retained in California, as well as other information required under the Recovery Act. California established a centralized reporting system, the California ARRA Accountability Tool (CAAT), for Recovery Act funds received through state agencies. All state agencies receiving Recovery Act funds reported to the Task Force using the CAAT. The state's Chief Information Officer (CIO), on behalf of the Task Force, was responsible for collecting the data from state agencies, validating it, and uploading the data to FederalReporting.gov. The Task Force performed a pretest by working with the technical team at FederalReporting.gov and then uploaded by award all data by the October 10 deadline. Data corrections were made to improve the accuracy of reports from October 11 through October 20.

State officials cited several benefits of the centralized process, including establishing the CIO as the liaison between FederalReporting.gov and the state, which eliminated the need for each state agency to reconcile issues one at a time with FederalReporting.gov. It also allowed greater control of the process at the state level and helped state officials follow the flow and impact of Recovery Act funds in California. (Figure 2 provides a simplified example of how information flowed for two state-run highway projects that we selected.) However, local governments and other entities which directly received Recovery Act funds that bypassed the state reported those funds directly to FederalReporting.gov. Therefore, the Task Force had little or no visibility over these funds.

Figure 2: Basic Flow of Recipient Reporting Information for Two State-Run Highway Projects in California That GAO Selected



Source: GAO analysis of information provided by contractors, Caltrans, CIO, and the Task Force.

Note: Flow of recipient reporting information for locally-managed highway projects in California included additional steps.

State officials said they faced some challenges, especially in collecting required information on Dun and Bradstreet Universal Numbering System (D-U-N-S[11] ®) numbers for recipients and subrecipients and overcoming changing reporting requirements from federal agencies. For example, in some cases, the Office of Management and Budget (OMB) did not have D-U-N-S numbers in its system, which prevented the state from uploading job information from recipients and subrecipients. The OMB reporting system not only rejected the subrecipients' incorrect D-U-N-S numbers, but also all recipient data for that award, including correct D-U-N-S numbers, which numbered in the hundreds or thousands, without identifying the reason for the rejection. California officials also had to contend with federal agencies making last-minute changes to the reporting requirements including to the award amounts, award identification numbers, Central Contract Registration numbers, and Catalog of Federal Domestic Assistance numbers.

Another challenge Task Force officials noted is that the number of jobs reported can vary depending on how federal job reporting guidance is applied, as was the case with California's two university systems. For example, the California State University (CSU) system reported 26,156 jobs paid with Recovery Act funds based on $268.5 million in SFSF grants awarded and disbursed over 2 months, while the University of California (UC) officials reported 8,356 jobs paid with Recovery Act funds based on $518.5 million in SFSF grants disbursed out of the $717.5 million awarded. A CSU official said that their estimate is based on paying 26,156 full-time equivalent positions for the 2 months, May and June 2009, in which the Recovery Act funds were received. A UC official said that in contrast, the UC based its estimate on paying the 8,356 full-time equivalent positions for the full year, not just the months in which the funds were received, and by not counting tenured and other positions that would not have been cut otherwise. The CSU officials said that, on the advice of the CSU consultants, CSU followed Education guidance exactly as written without adjustments. The UC official said that UC adjusted its estimate to make it more realistic in reflecting the number of jobs retained. Task Force officials reviewed both estimates and told us that both are, in their opinion, within applicable federal agency guidance.

[11]According to Dun and Bradstreet, a D&B® D-U-N-S® number is a unique nine-digit sequence recognized as the universal standard for identifying and keeping track of over 100 million businesses worldwide.

Task Force officials stated that the reporting process would be improved if OMB provided a comprehensive list of awards within California, so that the Task Force can be sure that all awards were reported. However, Task Force officials told us OMB informed them that there was not a master list of Recovery Act awards that agencies have made to each state and to recipients within the state. Task Force officials also believed that a list of all state and local Recovery Act awards provided to California would help them better assess the impact of the Recovery Act in California. We previously recommended that OMB should develop an approach that provides dependable notification to states—where the state is not the primary recipient of funds but has a statewide interest in the information.[12]

Select California Localities Are Using Recovery Act Funds to Preserve Services

We met with officials in the city of Los Angeles (Los Angeles) and the county of Sacramento to discuss how Recovery Act funds are being used in these localities. (Figure 3 highlights information about the two local governments we reviewed.) Officials said that they face budget shortfalls this fiscal year due to declines in state funding for programs, property tax revenues, sales tax revenues, and other local tax revenues and fees. According to government officials in both localities, Recovery Act funds are helping to preserve the delivery of essential services and repair infrastructure, but have generally not helped stabilize their base budgets.

[12]GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, GAO-09-1016 (Washington, D.C.: Sept. 23, 2009).

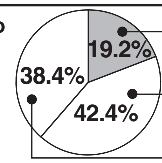
Figure 3: Information about Los Angeles and Sacramento, and Recovery Act Funds

Demographics

	Sacramento	Los Angeles
Estimated population (2008):	1,394,154	3,833,995
Unemployment rate (Sept. 2009):	12.2%	14.0%
Budget FY10: (change from FY09):	$4.3 billion (-19.0%)	$7.0 billion (-1.0%)
Locality type:	County	Metropolitan city

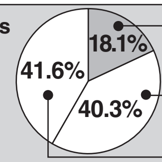
Recovery Act funding reported by Los Angeles and Sacramento

Sacramento



Awarded	$21.0 million
Not awarded	$46.4 million
Application pending	$42.0 million
Total	**$109.4 million**

Los Angeles



Awarded	$178.6 million
Not awarded	$397.6 million
Application pending	$410.1 million
Total	**$986.3 million**

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

Notes: Population data are from July 1, 2008. Unemployment rates are preliminary estimates for September 2009 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

Funding awards include both Recovery Act formula and competitive grants directly awarded to localities. Los Angeles data are as of November 9, 2009. Sacramento data are as of November 10, 2009.

- As of November 9, 2009, Los Angeles officials reported the city had been awarded about $178.6 million in Recovery Act grants. This included about $135.2 million in formula grants to support anticrime programs, community development projects, energy-efficiency projects, homelessness and foreclosure relief, purchases of buses, and public housing rehabilitation.[13] Additionally, the city reported it had been awarded $43.4 million in competitive grants to support airport improvement, art agencies, community policing, diesel emission reduction, port security, and public housing capital construction. Officials also reported that Los Angeles has applied for about $410 million in additional Recovery Act grants for broadband and smart grid projects, a neighborhood stabilization program, strengthening communities affected by the economic downturn, training workers for careers in the energy sector, and transportation infrastructure.

[13]Formula grants include: Community Development Block Grant ($19.2 million), Edward Byrne Memorial Justice Assistance Grants ($30.5 million), Emergency Shelter Grants ($29.4 million), Energy Efficiency and Conservation Block Grant ($250,000), Internet Crimes Against Children ($1.4 million), Public Housing Capital ($25.1 million), and Transportation Infrastructure ($8.0 million).

According to officials, Los Angeles is planning to use Recovery Act funds to enhance community services rather than to fund ongoing projects that require future financial support.

- As of November 10, 2009, Sacramento County officials reported the county had been awarded about $21.0 million in Recovery Act formula grants. This includes about $20.8 million in Recovery Act formula grants to provide support for law enforcement programs such as gang suppression and prevention of Internet crimes against children, energy efficiency improvements, and airport security improvements.[14] The county also reported receiving a $259,000 Edward Byrne Memorial Competitive Grant to supervise sexual assault offenders on probation. The county has applied for an additional $42.0 million in competitive grants for highway and airport improvements and for crime investigations support, and plans to pursue additional competitive grants. County officials said they have not developed a formal exit strategy from Recovery Act funding but are using the funds on projects that will not require local financial support after the Recovery Act funds are spent.

State Comments on This Summary

We provided the Governor of California with a draft of this appendix on November 17, 2009.

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

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; Guillermo Gonzalez; Chad Gorman; Richard Griswold; Don Hunts; Delwen Jones; Susan Lawless; Brooke Leary; Heather MacLeod; Joshua Ormond; Emmy Rhine; Eddie Uyekawa; and Lacy Vong made major contributions to this report.

[14]Formula grants include: Airport Security Grant ($11.3 million), Edward Byrne Memorial Justice Assistance Grants ($2.6 million), and Energy Efficiency and Conservation Block Grant ($5.4 million), Health Centers Increase Demand for Services ($546,318), Capital Improvement Program ($890,220), and Internet Crimes Against Children ($702,838).