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The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This letter report presents a review conducted by the Bureau of State Audits (bureau) concerning the State of California's progress in spending funds provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act) and administered by the California Department of Education (Education) within the respective deadlines established. On February 17, 2009, the federal government enacted the Recovery Act, in part to promote economic recovery and to stabilize state and local government budgets. Education is responsible for administering \$6.3 billion in Recovery Act funds awarded to the State through nine grants. Most of these funds are, in turn, made available to subrecipients, such as local educational agencies, school food authorities, and day care providers, in the form of grants or, in some cases, are spent directly by Education on vendor contracts or for administration. Of the nine Recovery Act grants, one had to be spent by September 30, 2010, another has to be spent by September 30, 2011, six by December 31, 2011, and one by September 30, 2013, after which any unspent funds for these grants will no longer be available for spending and will revert to the federal government.

Our review found that Education has awarded to subrecipients nearly all Recovery Act funds for grants that must be spent within the next two quarters; however, the overall level of spending for one of the seven grants that must be spent on or before December 31, 2011 may not be sufficient to ensure all funds will be spent. Further, although Education reported a higher level of spending for the other six grants, some subrecipients that were awarded funds for these grants by Education have reported spending little to nothing as of June 30, 2011. Education's efforts to ensure that all Recovery Act funds are spent before the deadlines for the grants are limited to contacting subrecipients to encourage them to spend all funds. Education does not have the authority to compel subrecipients to spend their awards at an increased pace to ensure that funds are spent before deadlines. Although it believes that the subrecipients will spend all Recovery Act funds for some of these grants, the short amount of time remaining before these funds revert to the federal government raises questions as to whether the funds will be used in time and increases the risk that inappropriate spending will occur by subrecipients.

The State of California Is Not On Track to Fully Spend Remaining Recovery Act Funds Before the Spending Deadlines

Education administers Recovery Act funds for nine awards totaling \$6.3 billion. According to Education, it designated \$871,000 for administration purposes, where it becomes the entity that spends the money, and has spent \$205,000 as of May 31, 2011. Education noted that it has used the remaining Recovery Act funds for the nine grants to make

awards to subrecipients.¹ The terms of the nine grants generally allow Education or subrecipients, as appropriate, to commit Recovery Act funds for a specific purpose, until the grants expire. This process of committing funds can include awarding funds to other entities. Education or the subrecipients are allowed to spend funds for up to 90 days after the respective grant's expiration date. Any unspent funds for these grants revert to the federal government at the end of the 90-day period.

According to Education's data, as of June 30, 2011, it has awarded \$6 billion of the \$6.3 billion Recovery Act funds for the nine grants. More specifically, Education has awarded nearly all of the funds for eight of the nine grants. For the School Improvement Grants, Education has not yet awarded \$231.6 million of Recovery Act funds. However, Education and subrecipients have until September 30, 2013 to award and spend these funds.

Although Education has awarded nearly all funds for grants that expire soon, there is a risk that subrecipients will not be able to commit or spend some of these funds on time. The spending deadline for one of the nine grants—Child Nutrition Programs—passed on September 30, 2010, with nearly \$865,000 remaining unspent that reverted to the federal government. Education noted that cost adjustments caused the actual costs to be less than anticipated by subrecipients. Further, because of local budget constraints some subrecipients were unable to incur expenditures using local funds before requesting reimbursement from Education. Therefore, they did not spend their full awards. Also, as Table 1 on the next page shows, one grant has a spending deadline of September 30, 2011 and six others have a spending deadline of December 31, 2011. Education and the subrecipients have not yet spent an aggregate of \$567 million, or 9.6 percent, of the Recovery Act funds for these seven grants. Based on the pace of spending thus far, although six of these seven grants could substantially be fully spent, the Education Technology State Grants will only be 81 percent spent before its spending deadline.

Specifically, at its current average pace of spending, Education and the subrecipients will spend just \$58 million of the \$71.6 million for the Education Technology State Grants before its spending deadline on December 31, 2011. With a total expenditure of \$38 million between July 2010 and June 2011, Education and the subrecipients reported an average spending amount of \$10 million per quarter. Assuming that this pace of spending continues, with just two quarters remaining, Education and the subrecipients do not appear to be on track to fully spend the funds before the spending deadline. Even though the reported spending by Education and the subrecipients indicates that 47 percent of the funds currently remain unspent, Education believes that it and the subrecipients will fully spend their awards in the remaining two quarters.

Some Subrecipients Are At Risk of Not Being Able to Fully Spend Their Recovery Act Grants

The overall amount for the Recovery Act grant that must be spent by September 30, 2011 and five of the six grants that must be spent by December 31, 2011 appear to be on track to ensure that funds are fully spent. However, some subrecipients that received awards from Education have spent very little and are not on track to be able to spend all remaining funds. For example, while the subrecipients have spent \$3 billion of the \$3.2 billion for the State Fiscal Stabilization Fund—Education State Grants as of June 30, 2011, as shown in Table 1, not all subrecipients of this grant have spent their awards at the same pace. Specifically, although roughly two thirds of subrecipients of this grant have

¹ Education noted that it has awarded approximately \$32 million for vendor contracts for the Child Care and Development Block Grant and the Education Technology State Grants.

fully spent their awards, many have spent little to nothing, as Table 2 on page 4 shows. Considering the short time remaining to spend these funds, it increases the risk that all funds will not be spent. Specifically, subrecipients that received 76 awards from Education for this grant have spent 50 percent or less of their awards and must spend a combined total of \$64 million in just six months in order to meet the December 31, 2011 spending deadline. As a result, there is a risk that these subrecipients will not be able to spend all remaining funds that Education awarded to them before the deadline and those funds will revert. Moreover, if they do spend all the remaining funds there is a risk that the funds may not be spent for the intended purpose.

Table 1
California Department of Education's Federal Recovery Act Funds Remaining Unspent as of June 30, 2011

PROGRAM NAME	FEDERAL AWARD AMOUNT	AMOUNT AWARDED BY EDUCATION	PERCENT OF FEDERAL AWARD COMMITTED BY EDUCATION	FEDERAL AWARD SPENT*	UNSPENT FEDERAL AWARD AMOUNT	PERCENT OF FEDERAL AWARD UNSPENT
Spending Deadline: September 30, 2010						
Child Nutrition Programs	\$12,864,683	\$12,850,636	99.9%	\$12,000,174	\$864,509	6.7%
Spending Deadline: September 30, 2011						
Child Care and Development Block Grant	220,273,864	219,554,969	99.7	193,066,792 [†]	27,207,072	12.4
Spending Deadline: December 31, 2011						
State Fiscal Stabilization Fund—Education State Grants	3,190,419,360	3,190,419,360	100.0	2,985,217,854	205,201,506	6.4
Special Education Grants to States	1,226,944,052	1,226,944,052	100.0	1,095,299,896	131,644,156	10.7
Title I Grants to Local Educational Agencies	1,124,920,473	1,122,047,895	99.7	963,370,137	161,550,336	14.4
Education Technology State Grants	71,578,424	71,445,874	99.8	37,980,850 [‡]	33,597,574	46.9
Individuals with Disabilities Education Act, Part B, Section 619	41,028,219	41,028,219	100.0	33,860,380	7,167,839	17.5
Education for Homeless Children and Youth	13,795,989	13,778,624	99.9	13,134,915	661,074	4.8
Spending Deadline: September 30, 2013						
School Improvement Grants	351,762,637	120,175,636	34.2	61,664,197	290,098,440	82.5
Totals	\$6,253,587,701	\$6,018,245,265	96.2%	\$5,388,951,611	\$864,636,090	13.8%

Source: California Department of Education's (Education) preliminary report to the federal government for the quarter ending June 30, 2011 as required by the American Recovery and Reinvestment Act of 2009 (Recovery Act).

* Education staff noted that although these are the expenditures Education reported to the federal government as part of its quarterly reports required by the Recovery Act, it is in the process of correcting and finalizing expenditure information. It indicated that it will report revised expenditure information, which it believes will be higher than what it reported to the federal government, after the allowed correction period ends.

[†] This amount does not include some payments Education made to a number of contractors because Education could not readily identify this information.

[‡] This amount includes \$205,028 spent for administration costs incurred by Education as of May 31, 2011. However, it does not include expenditures by vendors and some subrecipients that were awarded \$778,204, because Education could not readily identify this information.

Education noted that it does not consider past spending to be a clear indication of future spending. For example, it stated that spending the remaining State Fiscal Stabilization Fund—Education Grants funds in the remaining two quarters is feasible given that these funds can be used for nearly

Table 2
As of June 30, 2011 Numbers of Awards to Subrecipients with Unspent Funds by Percentage Spent for the Seven Active Grant Awards Expiring on or Before December 31, 2011

PROGRAM	0% SPENT		1-25% SPENT		26-50% SPENT		51-75% SPENT		76-99% SPENT		100% SPENT		TOTAL AWARDS
	AWARDS	UNSPENT FUNDS	AWARDS	UNSPENT FUNDS	AWARDS	UNSPENT FUNDS	AWARDS	UNSPENT FUNDS	AWARDS	UNSPENT FUNDS	AWARDS	UNSPENT FUNDS	
Child Care and Development Block Grant	33	\$117,790	4	\$31,755	5	\$33,662	7	\$69,925	17	\$1,359,919	360	\$1,613,051*	426
State Fiscal Stabilization Fund—Education State Grants	41	21,264,463	24	36,477,885	11	5,919,604	42	26,778,539	408	113,943,149	992	204,383,640†	1518
Special Education Grants to States	2	688,758	8	15,704,428	13	5,977,564	21	13,293,744	145	95,979,662	61	131,644,156	250
Title I Grants to Local Educational Agencies	20	2,451,482	18	5,929,990	30	13,526,677	49	26,548,639	299	88,007,573	960	136,463,861‡	1376
Education Technology State Grants	182	2,735,252	63	9,746,934	77	11,412,968	130	6,813,584	128	1,444,665	617	32,153,403§	1197
Individuals with Disabilities Education Act, Part B, Section 619	1	111,444	8	1,100,838	5	760,022	20	2,391,938	49	2,803,597	38	7,167,839	121
Education for Homeless Children and Youth	1	24,880	2	26,888	1	927	11	299,604	46	308,775	113	661,074	174

Source: Preliminary expenditure data reported by subrecipients to the Department of Education (Education) for the quarter ending June 30, 2011.

* This amount does not include unspent funds related to vendor contracts valued at \$31.5 million.

† Education noted that the unspent funds shown for this grant do not include \$817,866 that it awarded to charter schools that have closed. Of this amount, Education stated that it has collected \$330,343, which it will return to the federal government. It has determined that the remaining \$487,523 is uncollectible.

‡ According to Education, this amount does not include the unspent funds by a number of subrecipients that were awarded \$25.1 million because Education did not have this information at the time. Education noted that it plans to report the expenditure information for these subrecipients as part of its corrected quarterly report to the federal government.

§ According to Education, this amount does not include the unspent funds of some vendors and subrecipients that were awarded \$778,204 because Education could not provide this information. Education noted that it plans to report the expenditure information for these entities as part of its corrected quarterly report to the federal government. This amount also does not include \$665,967 in unspent funds for state administration costs.

any expenditure by subrecipients. Education stated that it tracks subrecipients that have unspent Recovery Act funds and periodically sends reminder letters to encourage them to spend their Recovery Act funds. However, Education cannot force subrecipients to spend their awards at an increased pace to ensure that all funds are spent before spending deadlines.

Nonetheless, because subrecipients must spend these funds on activities in accordance with the terms and conditions of the grants, the short amount of time remaining to spend the Recovery Act funds increases the risk that subrecipients will spend some of these funds on unallowed activities. Education is required to return to the federal government the funds used for any unallowable expenditures that are discovered after the spending deadlines for the various grant awards. As a result, the State is at risk of forfeiting or returning a significant amount of Recovery Act funds to the federal government, either because the funds remain unspent or because it is later discovered that funds have been spent for unallowable purposes.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code. We limited our review to those areas specified in the letter report.

Respectfully submitted,



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For questions regarding the content of this letter, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.