



**Joint Legislative Audit Committee
Informational Hearing
American Recovery and Reinvestment Act of 2009
California State Auditor**

Testimony June 9, 2010

Though California like other states has benefited from the influx of Recovery Act funds, it has had its share of challenges, i.e. awarding grants, spending these federal dollars with the speed contemplated in the Recovery Act, reporting the public benefits, and complying with other federal requirements governing the use of federal funds. As you've heard on other occasions and as you'll hear today, California's challenges stem largely from the significant increase in federal funds expected to be received, the time in which the funds must be spent and the fact that many state agencies receiving these federal funds are using existing structures to administer these Recovery Act programs.

As is well known, my office has played a critical role in providing oversight of the Recovery Act funds. To date, I have provided testimony on the Recovery Act at five hearings—four legislative committee hearings and a Congressional Committee hearing—issued the traditional Single Audit report for fiscal year 2008–09 and issued nine interim reports or letters, which include the five federal programs covered in the audit approved by the committee in July 2009. The interim reports or letters are a new nontraditional approach to communicating early the results of the Single Audit, which will likely become a standard practice. At the request of the federal government, my office participated in an interim reporting pilot project intended to communicate useful, timely and important information on internal control or compliance weaknesses so that deficiencies could be corrected immediately.

The reports and testimony I have provided highlight California's challenges and progress with regards to administering federal funds and results of our oversight of Recovery Act funds. In today's hearing, I will briefly discuss the information I provided to you previously and will then update the committee on the progress several state agencies have made in administering the Recovery Act programs based on the results of our newest Single Audit report and some recent follow-up work we have conducted at three state agencies. As you'll hear today, while some progress has been made, more is needed.

In May 2009 I presented to this committee the results of our then most recent Single Audit report. This audit which is required each year since 1985 as a condition of California's receipt of billions of dollars of federal funds—is the federal government's key oversight tool for ensuring proper administration of federal programs and is now very familiar to many members. At that hearing

I presented key audit findings regarding existing processes in many of the state agencies that administer federal funds and stressed that many findings were reported in prior years but had yet to be corrected. I also identified areas of high-risk, and described our plan of action to provide oversight of the Recovery Act dollars. Subsequent to the hearing, the committee requested that my office use a variety of risk factors to identify and select up to five programs, including the State Energy program administered by the Energy Commission to review and determine whether the agencies administering those programs were prepared to receive, spend and report on the Recovery Act funds as required.

In January 2010, I updated the committee on the various oversight activities my office had undertaken and the results of the audits my office had conducted since the May hearing, which included 6 letter or interim reports. I communicated the following issues that my office identified:

- In June 2009, we reported the results of reviews at the Department of Education, Health Care Services, Employment Development Department, and Social Services. In general, we concluded that these state agencies intended to rely on existing internal controls to administer the Recovery Act programs even though in previous audits we identified 30 deficiencies with these existing processes and controls, 26 of which had not been corrected. The problems we identified at that time included inadequate monitoring of subrecipients' use of federal funds; lack of an agency-wide cash management system to minimize the time lapsed between local educational agencies' receipt and disbursement of federal funds; possible inability to meet the new Recovery Act reporting requirements; and insufficient guidance from the federal government on the Recovery Act's reporting requirements, commonly referred to as Section 1512 reporting requirements.
- In the letter reports my office issued in November 2009, we provided the results of audits on the Department of Developmental Services' administration of two Special Education programs—Grants for Infants and Families—and on the Department of Corrections and Rehabilitation's administration of a portion of the State Fiscal Stabilization Fund program. We identified some issues with DDS not ensuring that subrecipients met federal contractor registration requirements before disbursing Recovery Act funds to them; with CDCR using its portion of the Stabilization funds to reimburse the State's General Fund for payroll expenses; and with CDCR likely overstating the number jobs it reported to the federal government in October 2009.
- In our December 2009 report regarding the Energy Commission's administration of the State Energy Program, we stated that the Energy Commission's internal control structure was insufficient, it was slow to complete the tasks needed to award and monitor the Recovery Act funds, and it had contracted for only \$40 million of the \$226 million awarded.

All of our reports and my previous testimonies are available on our Web site at www.auditor.ca.gov.

Today I will update the committee on the progress several state agencies have made in administering the Recovery Act programs and with how quickly state agencies are spending the Recovery Act funds based on our most recent Single Audit report and follow-up work we recently conducted. While some state agencies have made progress, I believe they need to do a better job of implementing sound policies and procedures to ensure the proper administration and monitoring

of these Recovery Act funds. In doing so, state agencies will be better positioned to spend the funds as quickly as possible consistent with prudent management so that California can achieve a key purpose of the Recovery Act—fighting the negative effects of the economic recession.

In prior reports, my office raised concerns with the slower than expected speed at which state agencies were spending these Recovery Act dollars. State agencies now appear to have spent significant amounts of Recovery Act dollars as we had expected during this fiscal year. Estimates of the amount of federal funding California state agencies will eventually receive under the Recovery Act is a moving target, ranging from about \$28 billion to upwards of \$31 billion. State agencies have reportedly received approximately \$23.5 billion in Recovery Act funds through April 5, 2010—about \$6.8 billion in fiscal year 2008–09 plus \$16.7 billion so far during fiscal year 2009–10.

I will now focus on three of the five programs we reviewed as part of the JLAC approved audit request made by several members of the committee. As a reminder, the five programs reviewed were determined to be high risk Recovery Act programs under our risk assessment criteria. The attached tables describe the recommendations my office made and the status of the Energy Commission, Community Services Development, and the California Emergency Management Agency implementation of our recommendations as well as the results of follow-up work my office recently conducted on these issues to verify state agencies' assertions in their respective responses to my office.