

TRACKING THE MONEY: ASSESSING THE RECOVERY ACT'S IMPACT ON THE STATE OF CALIFORNIA

JOINT HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

AND THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
ORGANIZATION, AND PROCUREMENT
OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

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TRACKING THE MONEY: ASSESSING THE RECOVERY ACT'S IMPACT ON THE STATE OF CALIFORNIA

FRIDAY, MARCH 5, 2010

HOUSE OF REPRESENTATIVES, COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM, JOINT WITH THE SUB-
COMMITTEE ON GOVERNMENT MANAGEMENT, ORGANI-
ZATION AND PROCUREMENT,

Los Angeles, CA.

The committee and subcommittee met, pursuant to notice, at 1 p.m., at the California Science Center's Donald P. Loker Conference Center, 700 Exposition Drive, Los Angeles, CA, Chairman Edolphus Towns (chairman of the committee) presiding.

Present: Representatives Towns, Watson, and Chu.

Also present: Representatives Napolitano and Richardson.

Staff present: Kwane Drabo and Katherine Graham, investigators; Bert Hammond, staff director; Deborah Mack, professional staff member; Leah Perry, senior counsel; Jason Powell, counsel and special policy advisor; and Valerie Van Buren, clerk.

Chairman TOWNS. Good afternoon. I want to thank all the Members of Congress, witnesses, local government officials, and interested citizens for being here today.

The Committee on Oversight and Government Reform joins with Chairwoman Diane Watson, Subcommittee on Government Management, Organization, and Procurement, to continue its ongoing oversight of the American Recovery and Reinvestment Act of 2009. I am also delighted to have another member of the committee present, Congresswoman Chu.

This is the fifth in a series of hearings which the full committee began immediately after passage of the act to examine this extraordinary effort to rescue our troubled economy.

This is also the second in a series of field hearings which the committee embarked upon to observe exactly how the Recovery Act is performing in States, cities, and neighborhoods across the country.

We began on the East Coast, New York State, and we now move 3,000 miles across the country to the West Coast and the State of California.

Early last year, from coast-to-coast, it was drastically evident that our economy was in trouble. The Nation was experiencing a nearly unprecedented level of job loss, foreclosures, and State and local budget deficits.

As with almost every State in our Union, the outlook in California was bleak. It was clear that immediate and decisive action was necessary to slow the free fall of the economy. Congress acted decisively in passing the Recovery Act, the largest economic stimulus program since the New Deal.

Recent news reports indicate that California is now showing signs of economic stabilization. Recovery Act spending may well be making a significant contribution to that stabilization.

According to the Recovery Board, California has been awarded over \$21 billion and received almost \$8 billion in recovery funds so far. With those dollars, California reported just over 70,000 jobs funded by the act between October 1st and December 31, 2009.

We are here today to make sure that the Recovery Act is working, and the Recovery Act dollars are properly accounted for.

California will receive more Recovery Act funds than any other State in the Nation. It is critical that we make sure those dollars flow rapidly, effectively, and efficiently from the Federal Government to the State; from the State to the locality; from the local government to the contractors; and from the contractors to the paychecks of hard working Californians, trying to put food on the family table.

In that regard, I have concerns about several key issues. There are reports that certain State agencies have failed to provide proper cash management, provide proper sub-recipient monitoring, and abide by Federal reporting guidelines. We will explore these and related issues in today's hearing.

We are not here today to lay blame and to point fingers. We are here to work constructively to ensure that taxpayer dollars are properly used and accounted for.

Today we want to better understand how Recovery Act dollars are being used in California and in other cities.

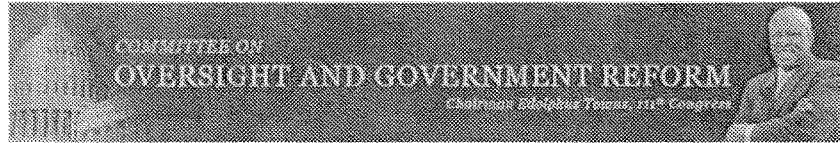
What are the unique obstacles, statewide and locally, to the use and tracking of recovery funds? Are we effectively preventing waste, fraud, and abuse of Recovery Act funding? If not, what further steps need to be taken?

Finally, I hope that we can identify areas in which we can improve the way in which the Federal Government, States and cities work together toward rebuilding our Nation's economic strength.

Again, I want to thank our witnesses for appearing today, and I look forward to your testimony.

Now at this time, I yield to the gentlewoman from California, Congresswoman Diane Watson, who breaks my heart because she's leaving Congress.

[The prepared statement of Chairman Edolphus Towns follows:]



For immediate release: Friday, March 5, 2009

Contact: Oversight and Government Reform Press Office, 202-225-5051

California Field Hearing Opening Statement Chairman Edolphus “Ed” Towns, D-NY

“Tracking the Money: Assessing the Recovery Act’s Impact on the State of California”

Good afternoon. I want to thank all of the Members of Congress, witnesses, local government officials, and interested citizens for being here today.

Today, the Committee on Oversight and Government Reform joins with Chairwoman Diane Watson’s Subcommittee on Government Management, Organization, and Procurement to continue its ongoing oversight of the American Recovery and Reinvestment Act of 2009 (Recovery Act). This is the fifth in a series of hearings, which the full Committee began immediately after the passage of the Act, to examine this extraordinary effort to rescue our troubled economy. This is also the second in a series of field hearings, which the Committee embarked upon to observe exactly how the Recovery Act is performing in states, cities, and neighborhoods across the country. We began on the east coast in my home State of New York, and we now move 3000 miles across the country to the west coast and the State of California.

Early last year, from coast to coast, it was drastically evident that our economy was in trouble. The nation was experiencing a nearly unprecedented level of job loss, foreclosures, and state and local budget deficits. As with every other state in our union, the outlook in California was bleak. It was clear that immediate and decisive action was necessary to slow the freefall of the economy.

Congress acted decisively in passing the Recovery Act, the largest economic stimulus program since the New Deal. Recent news reports indicate that California is now showing signs of economic stabilization. Recovery Act spending may well be making a significant contribution to that stabilization. According to the Recovery Board, California has been awarded over \$21 billion and received almost \$8 billion in Recovery funds so far. With those dollars, California reported just over 70,000 jobs funded by the Act between October 1st and December 31st, 2009.

We are here today to make sure that the Recovery Act is working, -- and that Recovery Act dollars are properly accounted for. California will receive more Recovery Act funds than any other state in the nation. It is critical that we make sure those dollars flow rapidly, effectively, and efficiently from the Federal government to the State, from the State to the locality, from a local government to the contractors, and from the contractors to the paychecks of hardworking Californians trying to put food on the family table.

In that regard, I have concerns about several key issues. There are reports that certain state agencies have failed to provide proper cash management, provide proper sub-recipient monitoring, and abide by Federal reporting guidelines. We will explore these and related issues in today's hearing.

We are not here today to lay blame and point fingers. We are here to work constructively to ensure that taxpayer dollars are properly used and accounted for.

Today, we want to better understand how Recovery Act dollars are being used in California and its cities. What are the unique obstacles, statewide and locally, to the use and tracking of Recovery funds? Are we effectively preventing waste, fraud, and abuse of Recovery Act funding? If not, what further steps need to be taken? Finally, I hope that we can identify areas in which we can improve the way in which the Federal Government, states, and cities work together toward rebuilding our nation's economic strength.

Again, I want to thank our witnesses for appearing today, and I look forward to their testimony.

###

Ms. WATSON. Thank you, Chairman Towns, for agreeing to hold this important joint field hearing in my District, California's 33rd Congressional District, on the impact of The American Recovery and Reinvestment Act.

Today's hearing is the second in a series of field hearings the committee has undertaken to evaluate the implementation of the Recovery Act at the State and local level.

When the Recovery Act was signed into law on February 17, 2009, \$787 billion was appropriated in a nationwide effort to promote economic stability, to preserve and create jobs, to assist those most impacted by the recession, and to stabilize State and local government budgets, while also providing long-term economic benefits by investing in transportation, environmental protection, and in infrastructure.

Today's field hearing is especially important because California has been awarded more funding than any other State in the Nation, while also struggling with a devastating State budget crisis, an estimated 12.1 percent statewide unemployment rate, and an even more severe unemployment crisis in its minority and youth community.

For the month of January, the national jobless rate for African Americans was 16.5 percent, 12.6 percent for Hispanics, and a whopping 24.4 percent for teenagers. So you see, Mr. Chairman, and committee members, colleagues, and those in the audience, we have a huge challenge.

Therefore, Mr. Chairman, without objection, I would like to submit the rest of my opening statement for the record, and allow Congresswoman Judy Chu, also a member of the Oversight and Government Reform Committee, to deliver brief remarks using the remainder of my time.

Chairman TOWNS. Without objection, so ordered.

[The prepared statement of Hon. Diane E. Watson follows:]

Opening Statement

Congresswoman Diane E. Watson

*“Tracking the Money: Assessing the Recovery Act’s Impact on the
State of California”*

Joint Hearing

*Full Committee on Oversight and Government Reform Committee
Subcommittee on Government Management, Organization, and
Procurement*

*Friday, March 5, 2010
Los Angeles, California
1:00 PM*

**Thank you Chairman Towns for agreeing to hold
this important joint field hearing in my district,
California’s 33rd, on the impact of the American
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When the Recovery Act was signed into law on February 17, 2009, \$787 billion was appropriated in a nationwide effort to promote economic stabilization, preserve and create jobs, to assist those most impacted by the recession, and to stabilize state and local government budgets while also providing long-term economic benefits by investing in transportation, environmental protection, and infrastructure.

Today's field hearing is especially important because California has been awarded more funding than any other state in the nation, while also struggling with a devastating state budget crisis, an estimated 12.1 percent state-wide unemployment rate, and an even more severe unemployment crisis in its minority and youth communities. For the month of January, the

national jobless rate for African Americans was 16.5 percent, 12. 6 percent for Hispanics, and 26.4 percent for teenagers. By hearing directly from those responsible for the implementation of Recovery Act funds we have a unique opportunity to hear what is happening on the ground- how these funds are being used, how many jobs are being funded, what steps are being taken to prevent waste, fraud, and abuse, and whether or not the money is being targeted adequately to those who need it the most.

I requested this field hearing in California, and Los Angeles specifically, because of the ongoing budget crisis being experienced at the local level as well. The City of Los Angeles has an estimated \$218 million budget deficit for this Fiscal Year, and is projecting

another \$400 million deficit for next year, putting at risk the jobs of an estimated 4,000 city workers. How can the Recovery Act funds best be used to prevent the laying off of our city's teachers, firefighters, and sanitation workers, and what is to become of those jobs when the Recovery money is gone in 2011?

Today we will hear from city officials from both the north and south of the state, as well as state officials responsible for oversight of the use of funds. I look forward to hearing their perspective on whether the state has sufficient resources and internal controls to monitor sub-recipients' use of funds and reporting activities. I am especially interested to hear about the adequacy of the California Department of Education's job creation reporting since they did not use the

guidance issued by OMB for their second quarter report. California was the first state in the nation to tap into the education Recovery Act funds, and as we lead in expenditures it is important that we also lead in transparency so that Americans know their money is being well-spent in this state.

I would like to thank today's witnesses for being with us today. Thank you Mr. Chairman, and I yield back the remainder of my time.

Ms. CHU. Thank you so much, Congresswoman Watson, for the opening statement. I want to spend my time highlighting an extraordinary effort, one of the most successful job creation programs created by the Recovery Act, that created 10,000 jobs right here in L.A. County in less than a year.

The unemployment rate here in California is 12 percent. The challenge is getting jobs up quickly so that people can put food on the table.

While this program was spearheaded by L.A. County, and in particular, by County Supervisor Don Knabe, who was unfortunately not able to testify before the subcommittee today, he has, however, submitted a letter and a fact sheet, which I'd like to highlight in my comments today.

This job creation program was funded through a little known part of the Recovery Act called "The Emergency Contingency Fund of TANF." Local work force investment boards placed eligible job seekers in positions, and 80 percent of their salary was funded by stimulus funds. The employer provided the rest. Participants are placed into subsidized jobs in all sectors of the economy, from non-profits, to government, and to private business. They were matched for jobs that complemented their employment goals.

The new jobs could not replace existing employees or replace somebody who was about to be promoted. Some examples of these jobs were park rangers, receptionists, teachers' assistants, dental assistant trainees, customer service clerks, and childcare workers. These workers made up to \$10 an hour for up to 40 hours a week.

The program was truly a win/win, benefiting both workers and businesses. Workers benefited by getting hands-on experience in a setting where they could earn wages, develop new skills, and enhance existing skills.

Businesses benefited by getting the help that they needed, while temporarily dealing with their payroll costs in a reasonable manner. Companies were able to try out these workers, and ultimately could possibly hire these workers permanently as the economy improved.

These jobs generated by this program could help businesses expand in these difficult times by reducing their economic risks.

Programs like this were created all across the Nation in 29 States, but L.A.'s was the most successful, and I have been very energized in promoting this all across the country and to our Congressmembers in D.C.

By creating these subsidized jobs, we are truly providing the economic multipliers to get our economy out of a recession, but the program is at risk. Funding expires on September 30th, and it would make 60,000 jobs disappear.

That is why I am cosponsoring and pushing very hard for an extension and an expansion of this bill through critical funding that is needed, so that we can make sure that Angelenos get back to work.

I do have good news, in that the Senate bill that Senator Kerry put together and put forth on Thursday does include this bill, but we do still have a long way to go.

Chairman TOWNS. Thank you very much. I thank the gentlewoman from California. Let me yield to Congresswoman Napolitano for any comments she might have.

Mrs. NAPOLITANO. Thank you, Mr. Chairman. I am very pleased that I was invited to sit at this hearing with you.

This is of great importance to me, and I thank you, Chairwoman Watson, for holding the hearing in our southern California area. I associate my remarks with my colleagues. However, I also want to address some of the other issues that I find very disturbing.

The Recovery Act has been very, very helpful in some of my areas. You see the media saying there is no new job development. There is in my area. Transportation—several different things have happened in my area. Teachers are still working because that helped the school district.

While you hear the negativisms in the media, you must ask the local people what is really happening, because it is helping maintain some of those jobs as the recovery becomes more and more successful. It is slow, granted, but it is there, and it is building up.

My biggest concern at this point has been several things: Fraud, accountability, and efficiency in those funds that come in from the Federal Government for my local institutions, whether it be cities, water districts, etc., because I think that the taxpayer funds that are very hard to get to, we must utilize every single dollar to its fullest extent, and ensure that it is used properly and for its intended purpose.

The House bill, the new jobs House bill, we do need that. We need the job training. We must increase the infrastructure, especially in recycled water. Water is economy. It is money. If we are not able to ensure that other areas are assisted in water recycling so that in the future we do not have restrictive water tables, etc., then we must be sure that this includes training in our institutions for people to understand how critical water is to our area.

We have other issues. Transportation. While we talk about all the billions of dollars that come into California for the bullet train, while I do not oppose it, I do not endorse it.

I need mass transit for people to go to work, to go to school, for people to move around when they need to without polluting the environment. I am sure that many of you probably would entertain that it does not bode well for those people who are working class to be able to use an expensive train ticket that they are only going to use maybe once in a while. That is a concern of mine.

In my area, we have met with the High Speed Rail Authority over the issues that are being held with the money coming in, and whether or not they are working with communities to be able to ensure that right-of-way is certain, that the cities are in tandem with what they are trying to do. Those are some of my biggest concerns.

We do look for future work with the GAO, and I am glad they are here. We will be talking to you, because we want to ensure that not only does the State do their part, but that we are in tandem with what we are all doing.

So with that, I thank you very much, and I yield back.

Chairman TOWNS. Thank you very much, Congresswoman Napolitano, for talking about the stimulus money and what it is

doing, and of course, we need to work in ways to be able to improve getting it down to the community.

Congresswoman Laura Richardson.

Ms. RICHARDSON. Good afternoon, all of you. I am going to be brief, because we are excited about having you here and the testimony that we are about to hear. Let me just say a couple of points.

One, I want to thank you, Chairman Towns, for not only coming by way of Washington being the chairman of the committee, but also you could have very easily chosen to be in your own District in New York.

I was on the flight with him yesterday, so we appreciate you coming here and getting real live testimony of the concerns in our community.

To Congresswoman Diane Watson, congratulations on bringing us all here. I do not think that there is a more important issue to talk about than what money we have currently received, how are we using it, so we can move forward and say what else can we do better.

You are going out with an incredible applause, I think, from all of us, and we are very grateful for all your services.

[Applause.]

Ms. RICHARDSON. In particular, in the House of Representatives, I serve on the Transportation and Infrastructure Committee and on four subcommittees of that, which is Highways and Rail, Aviation, Rails in particular, and then also, Aviation. They are pretty much all the hot button issues that we face here in California.

I am currently on Homeland Security, and recently, just about a month ago, I was named as a subcommittee Chair, which is pretty exciting, being here only 3 years in Congress, to be in that position.

It is critical that we look at some of the under water grants. We are going to need a lot of things, police support. I see Mr. Baca who is in the audience today. These positions—you should feel comfortable that your representatives are on vital committees that are making key decisions that impact direct dollars coming here.

Finally, the last thing I would like to say is my focus today is going to be, No. 1, on education. I am quite disturbed, and I will be very frank.

I went to an earlier rally this morning, and it was about the whole teacher situation, and why is it that we have invested, I think, quite a lot of money, and yet it seems like tuition costs are going up, we are losing teacher positions, we are closing classrooms, and yet the money is coming. I would like to know where is the money.

The second point is weatherization. It is my understanding that some of the initial RFPs that came out have since been pulled back. I have several different non-profits in my area that are prepared to train people and to get the weatherization done, and we need to discuss that.

Finally, I would like to say on the transportation end, I was not as thrilled with the bands that came out, which was the over \$1 billion in discretionary funds that the Secretary had that we received, I think, very little of.

The Under Secretary slipped a little bit and he made a comment. He said, "Well, you know, we tried to spread it around, there are

areas that got high speed rail, and also this,” we are like, wait a minute. California’s a large State. We are the largest in the United States.

We are grateful for the \$2 billion that we got for high speed rail, but that has nothing really to do with all of the other communities that we have to serve and transportation that needs to happen.

So a few months ago, I went to Sacramento. I had an opportunity to sit down with Ms. Chick. We discussed some of the things that the Governor’s Office is doing and what we look to do to moving forward. You should know, she is very open, she is accessible, and wants to make it work.

I look forward to today’s participation. Thank you very much.

Chairman TOWNS. Thank you very much. Now we move to our witnesses.

We are delighted today to have with us Mayor Villaraigosa, serving a second term as the 41st mayor of Los Angeles. Of course, the mayor’s also the vice president of the U.S. Conference of Mayors. Prior to being elected as the mayor of Los Angeles in 2005, he served as a speaker in the California State Assembly, and has been a Council member. We welcome you to the committee.

The Honorable Patrick Morris was elected mayor of San Bernardino in 2006. Mayor Morris also serves as president of the San Bernardino International Airport and Authority, and co-chairman of the Inland Valley Development Agency. We also welcome you here as well.

Of course, we have the Honorable Chuck Reed. He was elected in 2006 as the 64th mayor of San Jose. Previously, Mayor Reed served as City Council member of the 4th District of San Jose. Besides his services to the city of San Jose, Mayor Reed has also served our great Nation as a member of the U.S. Air Force during the Vietnam War.

Let me welcome all of you here. At this time—it’s a longstanding tradition that we always swear our witnesses in. Of course, I would ask you if you would kindly stand and raise your right hands.

[Witnesses sworn.]

Chairman TOWNS. Let the record reflect that they all answered in the affirmative. You may all be seated.

Mr. Mayor, we will start with you.

STATEMENTS OF ANTONIO VILLARAIGOSA, MAYOR, CITY OF LOS ANGELES, CA; PATRICK J. MORRIS, MAYOR, CITY OF SAN BERNARDINO, CA; AND CHUCK R. REED, MAYOR, CITY OF SAN JOSE, CA

STATEMENT OF ANTONIO R. VILLARAIGOSA

Mr. VILLARAIGOSA. Thank you, Mr. Chairman. I, too, want to thank you for holding this hearing in the city of Los Angeles, in the southern California area. As was mentioned, you could have held this anywhere, and the fact that you are shining the light on a part of the State that is critical to the direction of the State, it is critical to the Nation, it is very much appreciated and I want thank you for that.

Of course, Chairwoman Watson. We go back 20 years. There is life after politics. Trust me. I know. I was out for a couple of years. [Laughter.]

Let me just say how thankful we are for your leadership, for your extraordinary work as a School Board member through very, very tough times in this city, as the president of the School Board, Member of the Senate and now Member of the Congress.

L.A. is going to miss your advocacy, and I just want to thank you for your service.

Congress Member Chu and I also go back from the 1970's. Young, idealistic college students. I just want to acknowledge you and thank you for your support and your advocacy, both as a member of the Assembly and now at the Board of Equalization, and for the Congress.

I have had the great fortune to have worked very closely with Congress Member Napolitano. We served in the California Legislature together, and I could not be prouder to have her as one of the members of the L.A. delegation. Thank you for being here.

Finally, Congress Member Richardson, whom I am proud to have supported early on. I just want to thank you for shining the light on some of the issues that you mentioned, particularly around our schools.

Let me just say to my fellow mayors, it is great to be here with you as well.

I appreciate the opportunity to testify before you today.

At the outset, let me just say that the city of Los Angeles is grateful to President Obama, the Congress, and particularly the House, because I think the House understood different incentives and the importance of metropolitan areas. It is something that I want to speak to in just a moment.

I want to thank the Congress, and of course President Obama, for passage of the Recovery Act and the funds that Los Angeles has been awarded.

To date, the city has been awarded \$592 million in Recovery Act funds. With these funds, we have created or retained 1,681 jobs, of which 869 are temporary summer youth jobs, training our local work force, repairing our infrastructure, improving our environment, and assisting those most impacted by this economic downturn. I would, of course, like to see more funding come to Los Angeles, and particularly, our fair share.

You know, it is important to note that L.A.—that California does get the most money, but we are also by far the largest State. On a per capita basis, many of us in California believe that we need to get a higher return on our tax investment.

We understand that we will never get an one-to-one return, and I know in New York it is the same situation. We do think we need to shorten the distance between what we give and what we get.

I look forward to working, of course, with our congressional delegation, who I have always been able to count on to advocate for our region.

Let me give you a snapshot of what is happening today in the city of Los Angeles. We are facing unprecedented times and economic challenges. Just to give you an example, 2 years ago, we had a \$240 million budget deficit. Last year, we had a \$530 million

budget deficit. Two years ago, we resolved that first deficit. Then we resolved \$400 million of the \$530 million deficit. We had a \$175 million drop in revenues.

We are facing in the current year a \$212 million deficit after cutting more than \$600 million out of a \$4.4 billion general fund.

These are deficits unlike anything we have seen in generations. The unemployment rate—I remember being in the White House with President Obama when he said that the worse case scenario would be a double digit unemployment rate.

Well, I raised my hand, and said the worse case scenario has come to Los Angeles. Today, our unemployment rate is at 14 percent, and the area that Congress Member Richardson represents, that number is closer to 20 percent.

When you look at these numbers, they're at—the same with Congress Member Watson. When you look at these numbers, they are astronomical. Not since the Great Depression have we seen this many people out of work.

Some of our most important industries, like construction—as you know, the 4-years that I have been mayor, if you look downtown or at Hollywood, construction has been at its all time low years in a row, a 30 percent drop. A 30 percent unemployment rate in that industry. Our tax revenues from property sales, business, documentary, transfer and hotel occupancy are down by more than 30 percent.

For the remainder of our fiscal years, I said we are facing a \$212 million deficit, and we are projecting a \$485 million deficit next year.

We have instituted the most generous early retirement package in the Nation of 2,400 employees, so that we did not have to lay off. This year, we are going to be looking at layoffs, furloughs, and salary cuts just to make payroll.

So, how have Recovery Act funds impacted our financial situation? Well, the real answer, not as much as we would like.

One of the five goals of the Recovery Act was to stabilize State and local budgets. Unfortunately, while State budgets and school districts received recovery funds to stabilize their budgets, municipal governments have not.

The recovery funds we received for the most part cannot be used to supplant local funds. Rather, these funds must be used to expand existing programs or launch new initiatives that will be difficult to sustain once the recovery funds are expended.

With that said, my first recommendation to the committee is to allow municipalities to use recovery funds for budget stabilization. Now, I know that my friend, and one of your colleagues, Congress Member Miller, is putting forth a jobs bill that would do just that. I commend him for that. I met with him last week, and I asked him to move that through the House as quickly as possible. The cities need help now.

The vice president of the U.S. Conference of Mayors had found that this problem is not unique to the city of Los Angeles. The city of San Jose and San Bernardino are all here, and they can tell you that cities all across the country are facing virtually the same scenario that I just painted for our own city. If we are going to get this country on the road to recovery, that road begins in our cities.

Let me state that 88 percent of the gross domestic product is located in our cities. Eighty-two percent of the unemployment rate is located in our cities. Eighty percent of the foreclosures are located in cities.

When the “shovel ready” infrastructure money was distributed, States received 70 percent of the money, while metropolitan areas received 30. That, I know, was something that—that is why I mentioned the House—that the House wanted to fix it and the Senate did not.

Ultimately, we distributed that money on a 70/30 basis.

What I said back then when I was in the White House was yes, when we distribute money, 70 percent to the States and 30 to the cities, we may build a road, but that road is going to connect the ducks to the geese.

In the case of Ms. Richardson’s District, we can build a bridge to connect the two biggest ports in the United States of America, Long Beach and Los Angeles. That is a different kind of infrastructure project. Infrastructure money that is spent in cities creates jobs as well as improves mobility and air quality.

That brings my second recommendation, to send more of the recovery funds directly to metropolitan areas.

Now another issue is the siloing of funds that has limited our ability to utilize funds where they can do the most good or where the need is greatest.

For example, in one area of the city, we may receive funds to improve policing services, but not to fix the streets, conduct weatherization of homes, add energy efficiency lighting, or prevent foreclosure.

How much more efficient it would be if we had the flexibility on how and where recovery funds were used. Flexibility like we have with the community development block grant program, that allows us to nimbly put money where the need is.

Another concern with existing grant programs is the missing link to job creation, which is the No. 1 priority of my administration and has been the central focus of your work and of the Recovery Act.

Here is a good example. We just received—thank you very much for that—I was with Members of Congress and the Senate when we received it—\$7.5 million for broadband expansion funding. We received, by the way, that one, our fair share—we received more than any city in the country.

But while this funding will allow us to bridge the digital divide by creating 4,000 workstations at public libraries, recreation and community centers, it only created one job.

So my third recommendation is to break down the siloing of recovery funds and allow greater flexibility in how the funds may be used in order to maximize job creation.

Finally, L.A. will be negatively impacted due to the interpretations by Federal agencies of Recovery Act language. When we received “shovel ready” infrastructure funding through the Recovery Act, we identified—because if you remember, at the time, they said you have to get this out in 90 days.

Well, most of these projects, infrastructure projects, in New York, L.A., and San Jose, you can't put shovel ready, big projects like that, you know, together in 90 days. It just does not exist.

What we identified was street resurfacing—most of us have streets that need a great deal of repair—as one of the main ways to get projects immediately underway.

It was a way to put people to work and spend money in the shortest period of time. So, using our work force, we started our street resurfacing program.

Then we were told by the Federal Highway Administration last August that we would be prohibited from using city workers for any projects started after July 28th.

Now we are faced with a situation where we are funding for future projects, but we are going to have to lay off all of the workers, or many of the workers, that do our street resurfacing, because of our budget problems.

That makes no sense, and therefore, my last recommendation is that the Congress allow the use of force account labor on Recovery Act funded projects, and not set a higher standard than normal federally funded highway projects.

Again, I want to thank the Members who are here. I feel heartened that you all decided to come to southern California. Heartened—I know that I am preaching to the choir, because many of you have mentioned some of these same issues.

I only hope that as more cities in the course of your hearings begin to raise these issues, we will be better able to put shovel ready projects into effect, create the jobs that are critical, and retain city work forces at a time when our cities are facing unprecedented financial crises.

Thank you very much.

[The prepared statement of Mr. Villaraigosa follows:]

Testimony of Los Angeles Mayor Antonio R. Villaraigosa before
the House Committee on Oversight & Government Reform
California Science Center
Friday, March 5, 2010

Thank you Mr. Chairman and members of the Committee. I appreciate the opportunity to testify before you today on the impact of the American Recovery & Reinvestment Act funding on the City of Los Angeles.

At the outset, let me say that the City of Los Angeles is grateful to President Obama and the Congress for passage of the Recovery Act and the funds that Los Angeles has been awarded to date. With these funds we are training our local workforce, repairing our infrastructure, improving our environment and assisting those most impacted by this economic downturn

Of course, I would like to see more funding come to Los Angeles; to receive our fair share. And I look forward to working with our congressional delegation and this Committee to ensure that happens.

First, let me give you a snapshot of what is happening today in the City of Los Angeles. We are facing unprecedented times

and economic challenges unlike anything we've seen in a generation. The unemployment rate in the City hovers around 14% and in some of our most important industries, like construction, it is approaching 30%. Our tax revenues from property, sales, business, documentary transfer and hotel occupancy are down by more than 30%.

For the remainder of our fiscal year, we are facing a \$212 million deficit and we are projecting a \$485 million deficit for the next fiscal year. We have instituted early retirements for some 2,400 City workers, furloughs, salary cuts and unfortunately layoffs. We are looking at the possibility of laying off up to 1,000 workers for the balance of this fiscal year and an additional 3,000 employees for the next fiscal year, out of a civilian work force of 24,000 employees.

So how has the Recovery Act funds impacted our financial situation? The real answer is not as much as we would like.

To date, the City has been awarded \$592 million in Recovery Act funds from formula and competitive grants and as a prime recipient and as a sub-recipient. We have received \$16 million in Recovery Act funds while expending \$31 million and have

had to borrow the balance to front-fund projects while awaiting reimbursement. We have created or retained 1,207 jobs, of which 869 were temporary summer youth jobs.

One of the five goals of the Recovery Act was to “Stabilize state and local budgets in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.”

Unfortunately, while state governments and school districts received Recovery funds to stabilize their budgets, municipal governments have not.

The Recovery funds we receive, for the most part, cannot be used to supplant local funds. Rather these funds must be used to expand existing programs or launch new initiatives that will be difficult to sustain once the Recovery funds are expended.

With that said, my first recommendation to the Committee is to allow municipalities to use Recovery funds for budget stabilization. As the Vice President of the U.S. Conference of Mayors, I have found that this problem is not unique to Los Angeles but is faced in every large city in the country.

My second recommendation is to send more of the Recovery funds directly to metropolitan areas. If we are going to get this country on the road to recovery, that road begins in our cities.

Cities are the economic engine of this country. 88% of the Gross Domestic Product (GDP) is located in cities; 82% of the unemployment is located in cities; 80% of foreclosures are located in cities.

But when the “shovel ready” infrastructure money was distributed, states received 70% of the funding while metropolitan areas only received 30%.

Because I had been Speaker of the California Legislature, I was able to get that reversed in California so that 70% of the funding went to the urban areas and 30% went to the state. But this is the only place where that happened.

As I often say, when the money goes to the states, there is no assurance that it is not being used to build roads to connect

ducks with geese; whereas infrastructure money that is spent in cities create jobs as well as improve mobility and air quality.

In an effort to get the Recovery funds out quickly, it was determined that the money would be provided to federal agencies, who in turn would distribute it, for the most part, using existing grant programs. These grant programs are very specific about how the funding can be used.

The “silo”-ing of funds has limited our ability to utilize funds where they can do the most good or where the need is greatest. We are not able to bundle funding together to address problems that cut across federal agencies jurisdictions.

For example, in one area of the City, we may receive funds to improve policing services but not be able to fix the streets, conduct weatherization of homes, add energy efficient lighting, or prevent foreclosures.

How much more efficient it would be if we had the flexibility on how and where Recovery funds were used? Flexibility like we have with the Community Development Block Grant program or the old revenue sharing programs of the Nixon Administration.

Another concern with existing grant programs is the missing link to job creation, which is the number one priority of my administration and has been the central focus of the Recovery Act.

A good example is the \$7.5 million of broadband expansion funding we received - more than any other city in the country. While this funding will allow us to bridge the digital divide by creating 4,000 workstations in public libraries, recreation and community centers, it only creates one new job.

Other grants for equipment, such as the \$8 million for the purchase of 16 clean fuel burning buses, will help improve the environment, but don't create a single job.

So my third recommendation is to break down the "silo"-ing of Recovery funds and allow greater flexibility on how the funds may be used in order to maximize job creation and address the greatest needs.

Los Angeles will be negatively impacted due to interpretations by federal agencies of Recovery Act language. Because of the

size of Los Angeles and the number of miles of streets and sidewalks, City employees are used to resurface streets and repair sidewalks. When we received "shovel ready" infrastructure funding through the Recovery Act, we identified street resurfacing as one of the main ways to get projects underway, put people to work and spend money in the shortest period of time.

And so we started our street resurfacing program using our City workforce. The Federal Highway Administration notified us last August, that while projects that had begun prior to July 28 could continue to use City workforce, we would be prohibited from doing so on any projects started after that date. Now we are faced with a situation where we have funding for future projects but we will have to lay off 139 City employees and contract that work out. It makes no sense to me.

And therefore, my last recommendation is that Congress provides an exemption to allow for the use of force account labor on Recovery Act funded-projects.

Thank you for the opportunity to testify today and I am happy to answer any questions you may have.

Chairman TOWNS. Thank you very much, Mr. Mayor, for your comments.

Mayor Morris.

STATEMENT OF PATRICK J. MORRIS

Mr. MORRIS. Honorable chairman, co-chairman, members of the committee. I, first of all, want to turn to Diane Watson, and Mayor Villaraigosa thanked her on behalf of Los Angeles. On behalf of the Inland Empire, and all of southern California, and indeed the State, I want to thank you for—

Chairman TOWNS. Pull the mic a little closer to you.

Mr. MORRIS [continuing]. A lifetime of service to this State, to this region and to this Nation. Thank you very much.

I am a little nervous. Before me is a digital clock. It started at 5 minutes. I am already 30 seconds into my 5 minutes. Having talked to your staff, Mr. Chairman, I have timed my comments to about 10 minutes, and I am told that you will not buzz me. As a mayor, I buzz people all the time. [Laughter.]

Chairman TOWNS. There is a trap door there. [Laughter.]

Mr. REED. That sounds like a Brooklyn solution to me. [Laughter.]

Chairman TOWNS. It is a good one.

Mr. MORRIS. It is an honor to be here today to talk and share with you ideas on how we can together build a stronger America and a better tomorrow with job creation.

I speak to you today as the mayor of an Inland Empire City, and as an original leader in that region of California. It is a metropolitan area of over 4 million good souls, the third largest in California, and the 14th largest in the Nation.

In the last decade, our Inland Empire has seen its population explode by more than 25 percent, almost four times the rate of the State and the Nation. Similarly, growth in our GDP output in the Inland Empire during the last period, 2000 to 2007, hit almost 12 percent per annum, four times the U.S. average.

When a fragile regional economy explodes in such a manner, it is often followed, as we know, by an equally devastating collapse, as we have experienced in our area since the Nation's economic free fall in 2007.

Unemployment, as Mayor Villaraigosa has cited, is over 14 percent in our region. In our city, it is up to 18 percent. There are an estimated 175,000 people in our area currently unable to find a job.

Home values have declined in our city almost 50 percent. The high rates of foreclosures and bank-owned properties plague all of our communities.

To put this in perspective, the Inland Empire was second only to Detroit in terms of unemployment rates this past summer. Against this sobering background, however, is the Federal stimulus dollars that have flowed into our city and into our region over these last 18 months, and they have provided substantial relief, great welcoming relief to that dark background.

To date, our city has received \$20 million in the American Recovery and Reinvestment Act funds to hire new police officers, purchase and rehabilitate foreclosed homes, initiate homeless prevention programs, build new community amenities, and spark eco-

conomic development through energy efficient and renewable energy programs.

These city investments of our funds have translated into over 100 direct jobs, with an additional estimated 80 to 130 induced jobs for infrastructure and construction projects.

It is important to note that our city's job numbers are not as significant as one might expect with \$20 million in investments. The reason is that 65 percent of the city's RA funds have gone toward direct government services, while only 35 percent have been for infrastructure and construction projects.

At the regional level, the job picture is quite different. Sand Bag, the transportation planning agency for our county, has received over \$180 million in ARRA funds. All of the ARRA funds received by Sand Bag have been directed into infrastructure and construction projects, which has translated into a whopping 2,300 jobs.

The lesson learned? If the primary goal of Federal stimulus funds is immediate job creation, Federal stimulus dollars for infrastructure creates many more jobs per dollar than stimulus funds for direct government services.

There is an equally important lesson to be learned about the manner in which ARRA funds can be leveraged with local resources when invested in infrastructure projects.

In the Inland Empire, the regional leaders leveraged ARRA funds with local funds to create hundreds of additional jobs. Let me explain.

We have a \$700 million Interstate 215 project that involves the reconstruction and widening of 7.5 miles of critical transportation infrastructure through our city. In the summer of 2009, that project was in jeopardy of coming to a standstill due to the lack of State bond funding. Not only would a standstill have been costly to our local economy, it also risked Sand Bag being unable to take advantage of the 30 percent reduction in construction costs because of lower construction bids.

When Sand Bag received the \$128 million in ARRA funding for transportation projects, rather than scatter these resources across the broad landscape of the Nation's largest county, we directed it specifically to the one project I have identified, the I-215 Freeway project, and locked in substantially over a 30 percent reduction in construction costs in the current economy. That is the leverage.

As a result of the construction cost savings, our Sand Bag Board created its own local stimulus program. Thirty-one million dollars in construction savings to be immediately directed toward local transportation infrastructure projects, thus creating an additional 565 jobs in both direct and indirect job creation locally.

The lesson learned? By making a strategic use of a large lump sum of Federal stimulus dollars, regions can leverage additional local resources in a way that broadens and deepens the economic and job creation objectives of the American Recovery and Reinvestment Act.

The newly created energy efficiency and conservation block grants program is another success story on how ARRA funds can opportunistically be used by local governments, and it provides an important lesson on how Federal stimulus dollars should be allocated.

Similar to the highly successful community development block grant program, the energy efficiency block grants are allocated directly to cities and counties for projects that have energy efficiency improvements and services to reduce greenhouse gas emissions.

Our city was awarded \$2 million for this program, and we have begun to implement projects that will immediately put contractors, architects, and engineers to work with energy efficiency construction projects that will have a transformational effect on our local economy.

Because this money is provided directly to local jurisdictions through flexible block grants, the limited Federal dollars can be matched with local funds and economic development strategies to broaden and deepen the economic and job creation objectives of ARRA.

In our city, we are leveraging our EECBG Federal funds with private funding through the development of our AB811 program, or PACE programs, as they are known at the Federal level.

Our city is bargaining with the county, combining portions of our collective EECBG funds to implement a program that creates a pool of secure and low-cost private capital to fund major retrofit projects on homes and businesses that reduce energy and water consumption and generate renewable energy. These projects will give our local economy an enormous boost.

We estimate for every 800 loans issued, a direct economic impact of some \$20 million will be infused into the local economy. This example illustrates how, when given Federal funds directly, without tight Federal and State constraints, we at the local level use innovation and creativity to ignite our own local economies.

An opposite example is the Federal funds that have flowed thus far through the neighborhood stabilization program. Prior to the receipt of the NSP funds, our city had designed a program that would have used NSP funds to purchase foreclosed homes in “tipping point” neighborhoods to ensure that these homes remained owner occupied.

The plan was designed to prevent stable neighborhoods with high owner occupancy levels from being destabilized with a purchase of foreclosed homes by absentee land owners, the historic problem that has plagued our city during the previous foreclosure crisis in the late 1990’s and mid-1980’s. In essence, we wanted to prevent bad history from repeating itself.

However, when the guidelines were released, we were informed that the NSP funds could only be spent in certain Census tracks, and those tracks did not align with our city’s very strategic neighborhood stabilization program.

So, Federal guidelines dictated to us where to place these resources without any firsthand knowledge of our community or its housing issues and needs.

It is critically important that local government be allowed to determine where best to direct resources to ensure maximum benefit for program objectives.

Lessons learned? Federal stimulus dollars that are block granted to local regions and cities without being channeled through a historic and often Byzantine State and Federal funding silos, do not

create the flexibility needed to maximize the beneficial impact of these Federal funds on our local economy.

To summarize, I would strongly urge Members of Congress and the Body as it considers additional Federal stimulus funding to consider the lessons learned from the use of ARRA funds in the Inland Empire.

One, target Federal stimulus funding to infrastructure projects, because it creates the greatest number of jobs.

Two, flow Federal stimulus funding directly to local and regional governments through flexible block grants.

This allows Federal funds to be matched with unique local opportunities, moneys, and economic development strategies that maximize the results.

In a nutshell, continued direct flexible block grant funding for infrastructure and energy projects is critical to our collective success in helping the economic recovery of our Nation.

Thank you very much.

[The prepared statement of Mr. Morris follows:]

**Congressional Committee on Oversight & Government Reform and the
Subcommittee on Government Management, Organization and Procurement**

City of San Bernardino

Mayor Patrick J. Morris

Friday, March 5, 2010

Honorable members of the Committee, thank you for the opportunity to provide testimony today on how our federal government and local governments can work together to rebuild the nation's economy. I speak here today as the Mayor of San Bernardino and as a regional leader for the Inland Empire in California, a metropolitan area with over 4 million residents, the third largest in California and the fourteenth largest in the nation.

In the last decade, the Inland Empire has seen its population explode by more than 25%, almost four times the rate of California and the U.S. Similarly, growth in GDP output in the Inland Empire during this period was remarkable through 2007, hitting almost 12% in 2004, nearly four times the U.S. average.

When a fragile regional economy experiences such rapid growth, however, it is often followed by an equally devastating collapse, as has been experienced in the Inland Empire since our nation's economic freefall began in 2007. Unemployment is now over 14%, with an estimated 175,000 people in the Inland Empire currently unable to find a job. Home values have declined almost 50% in many areas, and high rates of foreclosures and bank-owned properties plague all of our communities. To put this in perspective, the Inland Empire was second only to Detroit in terms of unemployment levels this past summer.

Against this sobering back drop, the federal stimulus dollars that have flowed into our city and region over the past 18 months have provided welcome relief. To date, our city has received almost \$20 million in American Recovery and Reinvestment Act funds, to hire new police officers, purchase and rehabilitate foreclosed homes, initiate homeless prevention programs,

build new community amenities, and spark economic development through energy efficient and renewable energy programs.

These city investments of ARRA funds have translated into over 100 direct jobs, with an additional estimated 80 to 130 induced jobs for the infrastructure and construction projects. These numbers will continue to rise throughout 2010 and 2011 as additional funds hit the streets and newly created projects and programs are implemented.

It is important to note that our City's job numbers are not as significant as one might expect with \$20 million in investment. The reason is that 65% of the City's ARRA funds have gone towards direct government services, while only 35% have been for infrastructure and construction projects. At the regional level, the job picture is much different.

I am a member of SANBAG, the council of governments and transportation planning agency for San Bernardino County, which received over \$180 million in ARRA funds. *All* of the ARRA funds received by SANBAG have been directed into infrastructure and construction projects, which have translated into over 2,300 jobs.

The lesson learned? If the primary goal of federal stimulus funds is immediate job creation--- federal stimulus dollars for infrastructure creates many more jobs per dollar than stimulus funds for direct government services.

There is an equally important lesson to be learned about the manner in which ARRA funds can be leveraged with local resources when invested in infrastructure projects. In the Inland Empire the regional leaders leveraged ARRA funds with local funds to create hundreds of additional jobs. Let me explain.

The \$700 million Interstate 215 Project involves the reconstruction and widening of 7.5 miles of critical transportation infrastructure through our city. In the summer of 2009, this project was in jeopardy of coming to a standstill due to lack of state bond funding. Not only would the standstill have been costly to the local economy, it also risked SANBAG being unable take

advantage of up to 30% in construction costs savings that were created due to the contracting economy and lower construction bids.

When SANBAG received \$128 million in ARRA funding for transportation projects, rather than scatter these precious resources across the landscape of the largest county in the United States, regional leaders at SANBAG unanimously decided to direct all \$128 million into the completion of the Interstate 215 Freeway project to ensure the entire project was built and to lock in substantial construction cost savings.

And here's the leverage. As a result of the construction cost savings, our SANBAG leadership created its own local stimulus program. The \$31 million in construction savings was immediately directed into additional local transportation infrastructure projects creating an additional 565 direct and indirect jobs for our region.

The lesson learned? By making a strategic use of a large lump sum of federal stimulus dollars – regions can leverage additional local resources in a way that broadens and deepens the economic and job creation objectives of the American Recovery and Reinvestment Act.

The newly created and funded Energy Efficiency and Conservation Block Grant Program is another success story of how ARRA funds can opportunistically be used by local governments, and it provides an important lesson in how federal stimulus funds are allocated. Similar to the highly successful Community Development Block Grant Program, Energy Efficiency Block Grants are allocated directly to cities and counties for projects that have energy efficiency improvements and serve to reduce greenhouse gas emission levels.

Our city was awarded nearly \$2,000,000 for this program and we have begun to implement projects that will immediately put contractors, architects and engineers to work with energy efficiency construction projects that will have a transformative effect on our local economy.

Because this money is provided directly to local jurisdictions through flexible block grants, the limited federal dollars can be matched with unique local opportunities, funds and economic

development strategies to broaden and deepen the economic and job creation objectives of the American Recovery and Reinvestment Act.

In San Bernardino, we are leveraging our EECBG federal funds with private funding through the development of our AB 811 Program, or PACE Programs, as they are known at a federal level. Our city is partnering with the County, combining portions of our collective EECBG funds to implement a program that creates a pool of secure and low-cost private capital to fund major retrofit projects on homes and businesses that reduce energy and water consumption, and generate renewable energy. These projects will give our local economy an enormous boost. We estimate for every 800 loans issued, a direct economic impact of \$20,000,000 will be infused into the local economy. This example illustrates how, when given federal funds directly without tight federal and state constraints, we at the local level use innovation and creativity to ignite our own local economies.

An opposite example is the federal funds that flowed have through the Neighborhood Stabilization Program.

Prior to the receipt of NSP funds, our city had designed a program that would have used NSP funds to purchase foreclosed homes in “tipping point” neighborhoods to ensure these homes remained owner occupied. The plan was designed to prevent stable neighborhoods with high owner occupancy levels, from being destabilized with the purchase of foreclosed homes by absentee landlords – a historic problem that plagued our city during the previous foreclosure crises in the late-1990’s and mid-1980’s. In essence, we wanted to prevent bad history from repeating itself.

However, when the guidelines were released, we were informed that NSP funds could only be spent in certain census tracks and those tracks did not align with our city’s very strategic neighborhood stabilization program. So, federal guidelines were dictating to us, where best to place these resources without any first-hand knowledge of the local community or and its housing issues. It is critically important that local government be allowed to determine where best to direct resources to ensure maximum benefit for program objectives.

The lesson learned? Federal stimulus funds that are block granted to local and regional governments, without being channeled through historic and often byzantine state and federal funding silos, create the flexibility needed to maximize the beneficial impact of these federal funds on the local economy.

To summarize, I would strongly urge Congress as it considers additional federal stimulus funding to consider the lessons learned from the use of ARRA funds in the Inland Empire: (1) target federal stimulus funding to infrastructure projects because it creates the greatest number of jobs; and (2) flow federal stimulus funding directly to local and regional governments through flexible block grants because this allows federal funds to be matched with unique local opportunities, monies and economic development strategies that maximize results.

In a nutshell, continued direct flexible block grant funding for infrastructure and energy projects is critical to our collective success in helping the economic recovery of our nation.

Thank you.

Chairman TOWNS. Thank you very much, Mr. Mayor.
Mr. Reed.

STATEMENT OF CHUCK R. REED

Mr. REED. Thank you, Mr. Chairman, Madam Chairwoman, Congresswoman. Thank you for inviting me to testify, and from San Jose, the 10th largest city in the country, a city of over a million people, representing Northern California.

We are very proud to be the capital of the Silicon Valley, the innovation center of the world, and proud of the jobs that we have created and that we have exported to many other States.

We are not necessarily happy about exporting jobs to other States, but we are proud of it because the work, the innovation, the creativity that comes out of Silicon Valley has created products and services that have changed the world and jobs for untold numbers of Americans throughout the country, and we are very proud of that.

But as a job creation center, the recession has hit us hard. We were still adding jobs in San Jose and Silicon Valley until the capital market crash in about September 2008. Since then, we have lost 50,000 jobs in San Jose alone, and more in the rest of Silicon Valley.

I speak for us to thank you and Congress, and the Obama administration for ARRA, the Recovery and Reinvestment Act. The stimulus package has made a difference, made a difference locally and more importantly, it was with great relief that we saw the national economy turn the corner.

The rate of job losses made a decline and gross domestic product is rising. We know that as a job creation center, that once the national economy turns, we are going to start growing in net jobs again.

I believe that this year will be a year in which net jobs are created in Silicon Valley, and we will again continue to export jobs to other States.

We are very grateful for the Federal funding that has come directly to San Jose. We are grateful for what it has done for the economy.

We can spend as much money as you can give us. I think that is probably true with any mayor. I am happy to take any more money that Congress wants to send our way.

I am very grateful for what we have received and give back to the economy. Although I cannot—I guess I should not complain in the company of my fellow mayors who have higher unemployment rates than we do in San Jose—but our unemployment rate exceeds the national average, and we have lost a lot of jobs.

But we are on the way back, I believe, in large part because of the stimulus program, the package, and the spending that has changed the economy.

More specifically, in San Jose, by formula calculating, we will receive about \$105 million of stimulus funding. We have been awarded \$70 million to date, and we have spent 22 percent of that. I think that is an important thing for everybody to remember, trying to calculate the economic impact, is that the money was not all in-

tended to be spent in the first year, and we certainly have not done that.

The process of getting the awards out and then us bidding it, of course, has slowed things down a little bit. But that is good, because there is still money that is going to affect the economy this year. We are tracking your dollars very closely.

I was in Washington, DC, last year on the day that the Congress committee decided what the stimulus package was going to look like. I heard loud and clear from the Obama administration, from Members of Congress, do not mess this up. We are going to put out a lot of money, and local governments have to be very careful to spend it the way Congress intended, do the oversight, because there will be plenty of people looking to criticize it, plenty of opportunities to make mistakes. Just be careful and do it "right." And we have.

Even though we are not necessarily getting reimbursed for the oversight, if you are going to give us \$100 million, we are going to take it. I think we are obligated to do so.

Our city manager has been tasked with tracking the money, doing the reports, doing the oversight. We have asked our city auditor to look over the manager's shoulders.

We are very confident that we know where every dollar went and we will be able to track that. I cannot say that for every other city, because I know that those general fund dollars that have to get spent on these kinds of things, that implements some of these special programs, are hard to come by.

Our city is no stranger to holes and gaps. I do not think there is a city in California that doesn't have problems.

If there is some improvement to be made, it is in the clarity of the oversight, and for funding that could be used for oversight of RAAR funds, and that is really important, because it will encourage other cities and local governments to do the appropriate oversight, to make sure that we spend it the way you wanted it spent.

I am very confident that we can do that in San Jose. We have been doing that.

I am going to talk just a little bit about the future, as I see the stimulus money impacting the economy.

We have a different view in San Jose perhaps from the rest of the country, because innovations drive San Jose.

But there has been some specific programs beyond the direct funding that is coming to the city, and beyond some of the things that we have mentioned today, and that is funding for innovation. Funding, for example, through the Department of Energy loan guarantee program.

One of the things that happened when the capital market crashed in September 2008 was that it was practically impossible for small businesses and growing businesses to get access to capital markets, to be able to borrow the money they needed to finance their expansions and their factories.

We have 10 companies in San Jose that have applications in for the Department of Energy Loan Guarantees. Each of those companies will create jobs. Each of those companies will invest in San Jose, if those guarantees are awarded to them.

We have a couple of them that are at sort of the leading edge of the process, and they are going through the finalizing, but we do know that there are companies—such as NanoSAR, one of our companies, that produces the world's most cost effective solar cell—they have an application in for a Department of Energy Loan Guarantee.

They cannot get money from the capital markets, even though they have raised hundreds of millions of dollars of venture capital funding from the private sector and hundreds of patents. They have a factory. They have a product. They are making profits. Their manufacturing factory is sold out for the next 3 years, because they have a great product. They cannot borrow the money.

So without the DOE Loan Guarantees, they may wander off into another country, because other countries want them to make their next factory there.

These Department of Energy Loan Guarantees—I know there are other programs in some of the other agencies—I think they are going to be vitally important in the coming year for the ongoing impact on the economy, beyond the direct spending.

I want to thank Congress for allowing those programs to be a part of this package, because it is the creation of long-term permanent private sector jobs that will have the most impact on our economy.

I was in Washington back in the November or December timeframe with the League of National Cities, and there were four mayors on the panel. We all agreed that we can spend as much money as you can give us, but if we are creating jobs, that will disappear as soon as the funding stops, that is not going to have a lasting impact on our economy.

That to the extent that a jobs bill or a stimulus package or anything else gets done, it is important to try to focus on those areas that will help create those long-term permanent jobs, because those are the jobs that will keep our people working after the Federal Government stops writing the checks. That is ultimately better for us and better for the country.

So with that, I want to thank you for the funding. We appreciate it. We are spending it. People are working. The impacts are there. And we are very grateful for what Congress has done and what the Obama administration has done to help us get out of this recession.

[The prepared statement of Mr. Reed follows:]

Testimony of Chuck Reed
Mayor of San José, California
To the House Committee on Oversight and Government Reform

March 5, 2010

Since the passage of the Stimulus Package last year, San José has been awarded more than \$100 million dollars from the ARRA program. These funds will allow us to begin long over due improvements in our roads, invest in our transit networks, improve our airport, and train our workers. As a region, the Silicon Valley has been awarded nearly \$900 million dollars. Stimulus funds received by the region have had an impact on both maintaining our workforce and spurring short term job creation. We appreciate the money.

Unfortunately, San José and Silicon Valley have been hit hard by the economic downturn, nearly every industry has lost significant jobs. Between July 2008 and July 2009, Silicon Valley experienced a loss of 42,000 jobs; manufacturing (-13,800), professional services (-9,100), transportation (-8,600), and construction (-7,800) have been hit the hardest. Our unemployment rate has soared to 13.3% ahead of both the State (12.4%) and the nation (10.1%).

Our problems are compounded by the State of California's chronic budget problems and the near collapse of the capital markets in 2008. The state has helped itself to more than \$400 million of the city's funds over the past 12 years. Huge losses suffered by our pension plans will require the city to spend \$50 million dollars next fiscal year to cover our pension obligations contributing to a budget shortfall of over \$100 million dollars in FY 2010-2011.

That is why it is so important to continue to invest in the private sector in order to create jobs that are permanent and will continue long after the federal government stops paying for them.

California is unique in that it has always been open to new ideas. Silicon Valley in particular has attracted entrepreneurs and innovators for decades.

One example is the Department of Energy Loan Guarantee program, which allows many companies to invest in new equipment, expand their operations, add talent, and grow their companies. These companies can go anywhere in the world and are actively being recruited by foreign governments. The DOE loan guarantees will make it possible for them to stay in the US.

Last year, 10 Silicon Valley renewable energy companies had DOE loan guarantee applications pending. Several of these companies are looking to expand their production and manufacturing operations. Slowly processing their loan guarantee applications will allow other countries to lure our companies abroad, taking their innovations and jobs with them. One of these companies, Nanosolar, has orders that will take three years to fulfill and needs to expand their production capacity. They want to build a 300,000 square foot manufacturing facility here in Silicon Valley; we cannot afford to lose them.

While we fight to keep our new clean tech companies here in the United States, our existing successful companies doing business world wide are facing major challenges. US tax policy is preventing many of our technology companies from bringing their earnings home and re-investing them in the US. Congress and the Administration are considering a proposal which would severely limit, and possibly eliminate entirely, U.S. multinational businesses' ability to "defer" U.S. taxes on active foreign business income.

This is a bad idea. The loss of deferral would immediately increase taxes for U.S. businesses with worldwide operations and have a negative impact on employees and suppliers in the US. The additional tax burden would ultimately force U.S. companies to stop hiring in the US, move jobs and investments overseas, or surrender lucrative markets to foreign competitors. In addition, the additional cash drain on many U.S. companies could make them acquisition targets of foreign competitors.

In order to remain competitive globally, U.S. tax policy needs to incentivize our companies to expand their operations and hire workers here rather than the country they happen to land contracts. Limiting U.S. multinationals'

identified as one of the best solutions for regional prosperity, permanent jobs and global influence that would make the United States the leader in Clean Technology. We agree.

Silicon Valley has achieved a unique position. We have a rich history of innovation, a population supportive of technological advancements, and a collection of some of the most renowned universities in the world. The acknowledgement of Clusters being an integral part in economic recovery aligns with the recently passed Jobs Bill: a key component is investing in things that create permanent jobs, such as an innovation "eco-system."

Silicon Valley businesses are already able and prepared to collaborate. The Valley, though internally competitive, has been fostering a sense of collaboration since day one, because the benefits of shared technology are obvious. The Milken Institute review of Tech Centers Clusters described Silicon Valley as a "unique ecosystem of collaborating entities." We work together and through these interactions jobs, profits, and tax revenues are generated naturally. That is good for our region and for the country.

The ARRA investment in our cities, job training, education, and infrastructure surely helped stabilize our national economy and opened the door towards recovery, but what helped turn the tide last year is not sustainable. The next wave of federal investment needs to focus on the creation of long-term, permanent jobs that only come from the private sector. As we have seen in the recent past, targeted federal investment in new technologies will foster new companies and innovations creating thousands of jobs that will grow the national economy. We look forward to working with you.

Chairman TOWNS. Thank you, very much, Mr. Mayor. Thank you for your testimony.

Let me indicate the fact that I understand you talked about basically an unfunded mandate, because we are asking for certain information. But, let me just say to you, that we put forth legislation to give you the resources to be able to do that, because we think it is so important that we can learn from you as to what you might decide to with the resources.

But the problem has been that we have not been able to get it passed. We passed it in the House and every Member up here voted for it.

But the point is that there is another body that you have probably heard of called the Senate, and they for some reason, have not gotten around to it.

I think that would solve some of the problems that you raised here.

Let me yield now to the gentlewoman from California, who is a member of the committee, Diane Watson.

Ms. WATSON. Again, I want to thank you, Mr. Chairman, and I want to thank our witnesses. The information we gleam from you today is very vital to how we set policy.

I am sorry that the mayor of Los Angeles had to leave. Jim Clark, a representative to our legislative body, is still here, and I would ask that questions that might be directed, that he could have the mayor send back to us in writing.

Chairman TOWNS. We will leave the record open in order to give the mayor an opportunity to respond.

Ms. WATSON. Yes.

Chairman TOWNS. There must be certain questions that you would like to get answered.

Ms. WATSON. Yes. Our city is severely hurting. We have had to lay thousands of employees off, particularly in the urban areas. I know that the mayor has really fought to protect firemen/firefighters, and of course, our police. In this city, the need is so great.

We will direct some questions, Mr. Clark, to you, and you can have the mayor answer.

With the two of you, and I appreciate your testimony, you are smaller in population, but large in need. Had we not had the stimulus package, Mayor Morris, what would have happened in your city? And Mayor Reed, I think you have already indicated what it would be like because of loss of jobs, but can you continue?

Mr. MORRIS. Let me give you an example. You gave us a re-energized "Cops" program. That was critical to our city. We had held about 23 positions vacant in our police department. We have a serious issue with public safety in our city, and having those vacancies was deeply concerning to me as mayor, working on this issue of public safety. The Cops program allowed us to backfill 15 of those positions. We are in the hiring process right now.

Those are critical positions to make our city a safer place to live and work and to educate our children.

That was a major \$5 million boost in funding for public safety. That is already making a difference in terms of the safety of our community.

Ms. WATSON. Thank you. Mayor Reed.

Mr. REED. I think I can give you a couple of examples, some of the mystery about the job creation. We have been awarded roughly \$15 million for transportation, which we are using for street resurfacing. Well, we have not spent all \$15 million. You cannot spend it all at once. If you have lots and lots of streets, and lots of work to be done, that is nowhere nearly enough to cover our needs.

But there are people working today, surfacing roads today, who would not be working today without that money, and because we do a series of contracts, those people are going to be working for a long time, until we spend that money.

The fact that we only created a few jobs with the \$15 million is not the measure of the impact, because you have to look at how long those jobs are going to last, not just spend \$15 million and you only got a few jobs, because those people will be working for some period of time when you roll out the contracts.

That is one area where it is easy for people to misunderstand why there is so few jobs for that kind of award.

We also put to work last summer, probably the first money to arrive, for summer jobs for youth. We put to work 800 young people based on the criteria in the act, that these kids had some disadvantages in their lives and some difficulties. That was the criteria. We put 800 kids to work.

It was only a summer program, but those kids got some real money for their families and they got some job training. They got exposure to the kinds of things that they need to get to get into the work force.

We got the money, we spent the money, and we had an impact, and although those jobs are not permanent, but each and every one of those kids benefited from it and our city benefited from it. We did not spend all the money last summer, so we will do it again this summer if we have the money.

Ms. WATSON. If the two of you could reiterate your recommendations. We have been considering in Washington to send moneys directly to the school districts, maybe to cities, to counties, and so on, rather than going through the archaic structure of the Governor in Sacramento.

There are often differences in the largest State of the Union with 38 million people, as you see through the lens of State government, and as you see to your own local areas.

Why do you not reiterate those recommendations?

Mr. MORRIS. Mayor Villaraigosa eloquently stated that the metropolitan areas of this State have been the hardest hit by this massive recession, and we need to focus on those cities and regions where we have that great disconnect between life as a healthy place and life in a disaster.

Direct funding of the block grant type I was suggesting, I think, is critical. To go through the State, through that filtering system, it leaves a lot of money on the table in Sacramento. You served up there, many of you, in Congress. You know I used the word "Byzantine" before, and that is true. To get money out of Sacramento in ways that makes sense sometimes is very, very challenging.

Block grant funding, particularly the EECBG type, is just deeply appreciated and we can put it to work, and we are creative front-line leaders. We are innovators at the city level and the county

level. We know what the problems are and how to resolve those issues.

You need to understand that direct funding mechanism. You put it into effect, in the energy programming articulated for us, that is very, very helpful to us.

I told you before in my testimony, using those dollars in a way that combines, in our case, with AB811 structures, we are going to stimulate a whole new green economy, largely attributable to your creativity of a direct grant program, a block grant type program.

Mr. REED. There are some areas in which the existing formulas and the money went through the State that I think worked fairly well. In transportation, for example, because we got some of the earliest money through the transportation distribution through the State, through the Metropolitan Planning Organization onto the regions.

There is a delay anytime you have to go through the State and go through that process before it actually gets into circulation, and direct funding to the cities through the block grant program is probably the fastest way to get the money into circulation.

We have another problem with direct funding through the State, at least in transportation, because our Metropolitan Transportation Commission in northern California, which San Jose participates in, is not the representative on a population basis. It is not one person, one vote.

San Jose, being the largest city in the region, third largest in the State, and Santa Clara County, they are both underrepresented, so representation seems to be a little more rural, a little more, as Mayor Villaraigosa so eloquently put it, "building things from ducks to geese is a possibility when the money goes through the States." I know that many other States and other big cities that have bigger problems than California.

Ms. WATSON. I am going to yield some time to Assemblywoman Richardson, because she raised a key question about education, and I would like a response.

There are two procedures in the formula, and I want you to respond to them. Maintenance of effort and a local match or state-wide match. And most often, States that really suffer under maintaining the effort at the same level and matching the funds, I would like to take your comments on those two procedures.

Mr. REED. Maintenance of effort has not been a big issue for our city, because most of the ARRA funding that has come in has been for specified projects and specified things. We are spending it in accordance to the guidelines.

That was one of our concerns last year when Mayor Villaraigosa and I were in Washington talking to Congress about how do we ensure the States maintain their efforts, because the States have a fairly poor record when it comes to that. That has been an issue for us.

I cannot comment directly on what the State has done, but I think you are going to have some experts here speaking pretty shortly.

Ms. WATSON. I will raise the question with them.

Mr. REED. But the local match is always a problem, given the kind of budget problems that local governments are having in Cali-

foria. Now, particularly, San Jose will have a budget gap next year greater than 10 percent of the general funds. So, every general fund dollar is very precious.

We will undoubtedly have some cases where we just cannot afford to do the match, even though you are going to give us three quarters of the money.

Chairman TOWNS. The gentlewoman's time has expired, and the gentlewoman from California will have her own time. It is a matter of time. [Laughter.]

Congresswoman Chu.

Ms. CHU. Thank you very much, Mr. Chair.

I would like to ask a question about the flow of money and whether that is going smoothly. I know that we had to put money up front, and one of the things that struck me is L.A.'s struggle with this flow of money.

They were awarded \$600 million but only received \$16 million, and then had to spend \$31 million, mostly by taking out loans and waiting to be reimbursed.

This places a very significant burden on localities to put the money up front, when it is difficult in these economic times to get credit, not to mention the interest problem.

I am wondering what the situation has been for your cities with regard to the flow of money and how hard it has been coming down.

Mr. MORRIS. Quite frankly, Congresswoman, I am not sure that we have suffered the kind of disabilities that the mayor of L.A. has offered to you this afternoon.

We have—on COPS that I discussed, that money has flowed, and we are in the hiring process as we speak. Our dollars for the I-215, that is a major \$125 million that we needed, has come speedily to the table. We have kept thousands employed in highway construction as a result of that.

I do not know enough about L.A.'s problems in terms of cash-flow, but I have not heard from our regional transportation group or city manager that we have had difficulty in receiving those dollars.

Mr. REED. We have been awarded roughly \$70 million and we have spent approximately \$16 million, and have been reimbursed about \$8 million. We are spending it and we are getting reimbursements.

That is something that we have been able to handle, in part, because it is not all coming out of the general fund. We have some enterprise funds, and it is a little bit different. I would say that we are not controlled because of that.

Cash flow will probably be an issue, especially in this next budget year as our cash reserves continue to go down.

I had just one other fact when I was talking about the transportation and street resurfacing. We were awarded \$15 million and we spent \$173,000. We have been reimbursed \$33,000, and created 26 jobs. Now, 26 jobs does not sound like a lot for \$15 million, but we haven't spent \$15 million. We are spending the money. We will get reimbursed, and the TSR will get reimbursed, so that will help us with cash-flow on the street resurfacing.

Ms. CHU. I am wondering if you have had similar problems to what he was talking about, where a job was given to city employees, but then they were told that they had to have jobs that were contracted out instead, and they forced the city to really fire 139 workers, who actually were doing jobs that were part of that street project anyway.

Mr. REED. By and large, most of the power of spending has been on contracts in private sector companies. We are not putting a lot of city employees to work doing that, so it has been a big problem for us.

We do not have the same problem with all agencies, but we will be laying off city employees, no doubt about it, but that is a problem to be solved, if anything, as it continues.

Ms. CHU. Thank you. I yield back.

Chairman TOWNS. Thank you very much. That is something new. We do not get to yield back very often.

Mrs. Napolitano.

Mrs. NAPOLITANO. Thank you, Chairman Towns. It's just a lot of questions. I wish, like you, that Mayor Villaraigosa had stayed a little bit longer, because there are some issues and we are very adjacent to him as mayor of Los Angeles.

Mayor Morris, San Bernardino, my neighboring city, the Alameda border east goes all the way through and affects your area. My biggest concern has been the funding to do the great separation. We have not been processed yet. To me, that would be a great creator of jobs.

Mr. MORRIS. I serve on the MetroLink Board. You know of our accidents and you know the danger, we regularly have tragic pedestrian incidents at grade crossings. From that Board table, it is clear of the need.

Our neighboring city, Riverside, I think, in the city itself, has over 20 grade crossings. That really slows down the commerce of that city, more than any other city in the region.

We desperately need those resources. You are right. This is critical infrastructure to create a transit system that makes sense, for both cargo as well as passenger transit. You mentioned in your opening statement, Congresswoman, that you were deeply concerned about the issue of transit funding.

You know, I think it is critically important that we use this disaster as an opportunity to envision a new future for southern California. Southern California has been much more visionary with the advent of transit systems that move people in alternative choices to the automobile.

Southern California has remained auto dependent with a great but troubling freeway system. We need to invest in infrastructure for transit. This is an opportunity area for us, to look at transit centers and the rapid transit bus lines and light rail systems, and invest heavily in this future.

It will be upon us, and our children and grandchildren will inherit what we have or have not done. I would love to see stimulus dollars invested more heavily in that kind of visionary infrastructure that you discussed.

Mrs. NAPOLITANO. Well, we need to get—there's not much room for fraud in the area of grade separations, because it extends to the

railroads. It is 3 to 5 percent of matching funds. The State does not have the funding, and so it is mostly Federal and local participation. That is a sad state of affairs, because you compromise the safety of the individuals at grade separations.

With that said, I am looking also at—is there any project funds that because there is such high unemployment, that those bids may have come under the estimates?

What is happening to that money, and is that money being held accountable, so they can expand the projects for the additional job creation?

Those areas are a great concern, like you said. I'd certainly like to talk to Mayor Reed about their solar company, because that is an issue—that is where new job creation is going to be.

Accountability of the funds that might be coming from the Federal Government to assist in the development, not only training, but the new manufacturing companies coming in to assist and help us expand, those are great issues.

Mr. REED. Funny, that I have seen her come to the Department of Energy. She always seems to be doing an excellent job at this time of working those issues. A year ago when I was in Washington when the stimulus bill was being put together, the Department of Energy had one high-level appointee, and that was Secretary Chu.

The Department has had to write the regulations, issue the regulations, implement the program while growing itself, getting the staff in place, the congressionally approved appointees, as well as all the senior staff.

They have been doing that while trying to manage the programs. I met with John Silver, the executive director of the loan guarantee program, this week, and they are much better equipped to deal with that.

But the kind of detail and work that they are doing with their private sector companies to make sure the money is spent correctly, I think is very good. We have yet to see the money.

Mrs. NAPOLITANO. We are running out of time. Let me interrupt you just briefly to say be sure that you work with your SBA, Small Business Administration, a chance for small business assistance, to ensure that these small companies are able to get—do you have tax benefit loans?

Mr. REED. Yes.

Mrs. NAPOLITANO. That is so critical. If we are going to have time in order to build that, we also need to ensure that the money is going directly to what it was intended to and that it is used.

Mr. MORRIS. I quickly want to respond to your comment about the T-billing authorization. We need it sooner than later. We need to look at it again.

Mrs. NAPOLITANO. I am not the administration.

Mr. MORRIS. I understand that. I'm talking to you. You talk to the President.

Mrs. NAPOLITANO. No, we do not. [Laughter.]

Mr. MORRIS. I do not. We need to look at the caps on small starts and new starts. Those are the—

Mrs. NAPOLITANO. Grants?

Mr. MORRIS. Yes. Those are the things that we need to rebuild an economy in the new future.

Mrs. NAPOLITANO. I could not agree with you more, sir. Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much. I now yield to Congresswoman Richardson.

Ms. RICHARDSON. Thank you, Mr. Chair. First of all, thank you, for the two of you testifying with pertinent information. Let me ask you a couple of really direct questions. We have a limited period of time.

Mayor Morris, how many jobs did you say were created in your city and region based on—

Mr. MORRIS. Well, we have—on the stimulus package we put together for the I-215, that's about 2,300 jobs. We have within our city probably thus far, 200 jobs. But as Mayor Reed suggested, we are still unfolding some of those resources. Those numbers will increase over the next 12 to 18 months. You know, we are trying to be shovel ready in all particulars, but that is a challenge, as Mayor Reed suggests.

Ms. RICHARDSON. I understand. My next question is, of those jobs, how many were new and how many were you preserving?

Mr. MORRIS. In the city, we were preserving jobs, and those are high cost jobs, totally funded police officers, required personnel or other city employees. It is a pretty heavy commitment.

I said that in my testimony, talking about creating new jobs and getting the most bang for our bucks. It is in new jobs out there in the community, in the construction industry, building infrastructure.

Ms. RICHARDSON. I am sorry, we have to cut you off, but in Congress we have rules. We do not get the 10-minutes.

Of the numbers that you said, besides transportation, which I am getting actually to the next question, you are not creating new jobs. They were all preserved jobs. I don't have a problem with that. I am just trying to understand accurately what happened.

Mr. MORRIS. Yes. We basically used it in-house.

Ms. RICHARDSON. My next question is, of the transportation dollars that you used and the highway project, what were—did you bring in any new minority contractors who were able to take advantage of that job?

Mr. MORRIS. We have a local contractor, one that bid a large bid for the next two phases of the I-215, and I have several other subcontractors which I believe are minority contractors. I have not tracked that carefully, quite honestly.

Ms. RICHARDSON. Could you provide this panel with that information?

Mr. MORRIS. Yes, we will give you that.

Ms. RICHARDSON. Thank you, sir.

Mr. Reed, Mayor Reed, the same question to you. How many jobs did you preserve?

Mr. REED. The cumulative total was 335, and of that, most of them are not new jobs. So the paving contractors, they got the people who are already working, to keep them working. Because in the construction business you might have a job not very long. Most of them are continuation jobs.

Ms. RICHARDSON. I understand. Of any construction jobs that you have, do you have any record in terms of how many minority contractors are willing to take advantage of the work?

Mr. REED. I do not have that information.

Ms. RICHARDSON. Could you get that for us?

Mr. REED. Certainly.

Ms. RICHARDSON. My second point is, if you so appreciate the stimulus dollars, then I would recommend what you consider doing is helping us to let people know more about what happened. We took the heat for the vote, a very tough vote for us, but unfortunately—I will be very frank with you. I drive up and down the State, and I see, you know, “Mayor Morris” and whoever, and this great project that he did. You have to admit President Obama and Members of Congress stood up and took the tough vote.

And I am going to be frank with you, if you expect us to do it again, one of my biggest concerns, lessons learned, would be better acknowledging where it came from. Because we are getting pounded out there, and the American public, it is not resonating with them, of what we did and what they are seeing.

If we are all in this boat together, we need your help to talk more about that. So I do not know if that is in places that you go in the communities, everywhere. Let people know what happened. Because only through that can we be able to step up and do something again. Finally, my next question—

Mr. MORRIS. Come to San Jose, you will see the signs giving Congress credit.

Ms. RICHARDSON. You are doing better than some.

Mr. REED. I just need projects.

Mrs. NAPOLITANO. The public does not know it. They really do not.

Mr. MORRIS. We had an event that would knock your socks off, when we opened up that contract. We had people from Washington. The administration was there. It is a big cotton picking deal.

Ms. RICHARDSON. What I am talking about, Mayor Morris, is an ongoing communication with the public about how the funds were used, where did the funds come from, and what we did and what we need them to continue to do. I think you can find greater opportunities to do so.

My last question. The Government Accountability Office says that the L.A. Unified School District is facing staff cuts up to 8,000 for the years 2010 and 2011. In San Bernardino, Mayor Morris, the GAO says that you are going to have a \$30.7 million budget shortfall that would cut 197 staff positions, including 94 teachers.

What is your role with education and what do you intend to do?

Mr. MORRIS. I do not have a subset of schools, like Mayor Villaraigosa, under my charge. I am a former school board president before I was a judge, before I was a mayor. So I had some experience and deep concerns about these issues.

I am working to get one of those great grants that help neighborhoods, like the group from New York City, to try to create a dynamic for a children’s zone in Harlem.

Our schools are challenged, which was suggested by your comments, in terms of performance, as well as in terms of financing.

I care deeply about this. I endorsed a host of publicly chartered schools in my community to create small academies that do a better job.

As mayor, I have an educational roundtable that works on these issues. I have no direct authority. All of our school districts in inland southern California, we will send out notices of termination of teachers. It is the saddest, the most desperate situation I have seen in my lifetime.

Ms. RICHARDSON. Let me suggest before my time has expired, that you look at some of the stabilization money, how we are spending differently, categories that your city is receiving, that you consider putting together some programs to help teachers, to help various staff members as they go through these difficult times.

Thank you, Mr. Chairman.

Chairman TOWNS. I thank the gentlewoman from California for her comments.

Let me just ask a couple of quick things to both of you. You know, this jobs bill, do you have any suggestions as to what you think should happen with the jobs bill? You mentioned flexibility earlier. Could you be specific in terms of that?

Mr. MORRIS. My point of view—the word is block grants, block grants, block grants. Send it to us with general provisions where there is obvious areas of need and employment opportunities and we will knock your socks off with good results.

We know where the problems are in our cities. We know where the opportunities are. We know how to mix and match funds, Federal, State, and local. One of them—let me give you an example real fast. We got this Federal Act called the Second Chance Act. We have returning parolees to our city as the California prisons are over populated, and we need to have a new dynamic in terms of how we do business—justice in the State, but it requires a 50 percent grant, a match.

We applied for a “Second Chance” grant, but were allowed to take some State funds to match your funds and some other local funds and we made the match. It took some creative movement of funds to create the 50 percent match to the Federal Second Chance Act.

If you give it to us without too many strings attached, we can mix and match dollars and programs to create, I think, the greatest impact on unemployment. That’s my—

Mr. REED. We will happily spend any money that you wish to direct to the cities, and we will effectively spend it. We will spend it the way you want it spent. But those jobs are likely willing to last until the checks run out.

I would recommend that we try to focus the jobs bill on areas where we can help private sector create long-term permanent jobs. Access to capital for small businesses is critical.

Big businesses have other sources, but our small businesses that create most of the jobs in this country, are having very difficult times getting access to capital markets, not just our solar companies. It is companies of all kinds.

Clean up the banking system and the capital markets. I know that is a small challenge. That would be the most important thing,

because the private sector is going to create those long-term jobs that are going to help.

Mr. MORRIS. I join Mayor Reed in that quest. He is right. Focusing on long-term private sector entrepreneurial kinds of investments is critical, as is investment in the infrastructure for the future of this Nation. Those, I think, are the best investments we can make.

Chairman TOWNS. In your city, are you responsible for the Board of Education?

Mr. REED. In my city, nobody is in charge. We have 19 school districts—

Chairman TOWNS. I should go there and teach. [Laughter.]

Mr. REED. Nineteen 19 school districts. Each of them with a separately elected board of trustees, and a County Board of Education, so we have to work in a collaborative way. As the mayor, I am a mediator, collaborator, and I hold people accountable, but ultimately have no authority over the schools.

Chairman TOWNS. The point I want to make, Mr. Mayor, is the situation is you are about to lay off teachers, could you take some of the stimulus money and be able to save the jobs of the teachers?

Mr. REED. I know from talking to my School Board members that there are teachers who are working this year, working now because of stimulus dollars, that were going to be laid off.

If there is a way that money came directly to the cities that we could give it out to the school district boards, but we have never experimented with that and I do not know how that might work.

Ms. WATSON. Mr. Chairman, if you might yield, I might be able to shine some light on how it is structured here in California.

Chairman TOWNS. Sure.

Ms. WATSON. We send moneys to the Governor of California, and the Governor then appropriates money based on a formula called "ADA," Average Daily Attendance, to the over 1,600 school districts. There is a firewall between city governance and school districts.

In the county or in L.A. Unified School District, I should say, there are 27 cities. The city government really has no responsibility for those schools. The responsibility is within the school district.

We fund them based on that formula. So you might have some of your cities in L.A. Unified, but it covers about 910 square miles, the district does. We have close to a million children in the district.

City government has really nothing to do. Now, in the case of Los Angeles, the mayor was able to get the school board, seven members, to vote to give him 10 schools. The money in this State follows the child. That money that would come to the district then would follow the child into some special charter school set up or whatever.

I yield back.

Chairman TOWNS. Let me explain, because in our city, the mayor made the decision to save 14,000 teachers. Of course, the mayor does it.

Mr. MORRIS. Oh, for that kind of authority. [Laughter.]

And that kind of money.

Chairman TOWNS. Let me thank the both of you for your testimony. It was very, very helpful to me, and it is important to know

what you will do with the stimulus money. We appreciate your testimony. Thank you so much for coming today and sharing with us.

Mr. REED. Thank you.

Mr. MORRIS. Thank you very much. It has been an honor to be here.

Chairman TOWNS. We will now move to the second panel. Mr. Herb Schultz, Ms. Calbom, Ms. Howle, Ms. Laura Chick, and Gavin Payne.

Ms. Linda Calbom is the Western Regional Director for the Government Accountability Office. Ms. Calbom's work specifically includes assessing the implementation of Recovery Act funding in California.

Previously, Ms. Calbom served as the Director for GAO, Financial Management Assurance, for over 15 years. Prior to joining GAO, Ms. Calbom was a senior audit manager with Deloitte & Touche in Seattle, WA, where she worked for 11 years. Welcome.

Mr. Herb Schultz is the director of California's Recovery Act Task Force, and senior advisor for Governor Schwarzenegger. In doing so, Mr. Schultz is leading the effort to track recovery funds coming into the State, and ensuring that those dollars are spent efficiently and effectively.

Previously, Mr. Schultz served as Acting Secretary for the Labor and Workforce Development Agency in the administration of former Governor Gray Davis, and as Deputy Director of External Affairs for the Department of Managed Health Care.

Ms. Elaine Howle is California's independent State auditor. Ms. Howle has more than 20 years of experience in auditing and management in California's State Auditor's Office.

Ms. Howle has released eight key reports last year and several this year, that have examined specific problems in the program funding by the Recovery Act dollars within this State.

Ms. Laura Chick is the California Inspector General for the Recovery Act. Ms. Chick is responsible for deterring and detecting of fraud, waste, and abuse of over \$50 billion in Recovery Act funding.

Ms. Chick served as Los Angeles city controller for nearly 8 years. Before that, Ms. Chick was a city counsel member for the West San Fernando Valley area.

Mr. Gavin Payne serves as the chief deputy superintendent of public instruction for the California Department of Education.

As chief deputy, Mr. Payne manages all activities of the State Department of Education and oversees relationships between his department and the State School District and Council, as well as for the Federal Government.

Prior to his present appointment, Mr. Payne worked for more than a decade as Superintendent Jack O'Connell's Chief of Staff in the California Legislature.

Did I get everybody?

Now, there is a longstanding policy that we swear all of our witnesses in. Stand and raise your right hands.

[Witnesses sworn.]

Chairman TOWNS. Let the record reflect that they all answered in the affirmative. You may be seated. I will just go right down the line starting with you, Ms. Calbom, and then right down the line. You all have 5 minutes. [Laughter.]

Unless you are a mayor. [Laughter.]
 We will go right down the line.
 Thank you so much.

STATEMENTS OF LINDA M. CALBOM, WESTERN REGIONAL DIRECTOR FOR THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE; HERB K. SCHULTZ, DIRECTOR, CALIFORNIA RECOVERY ACT TASK FORCE; LAURA N. CHICK, CALIFORNIA INSPECTOR GENERAL FOR RECOVERY ACT; ELAINE M. HOWLE, INDEPENDENT STATE AUDITOR, STATE OF CALIFORNIA; AND GAVIN PAYNE, CHIEF DEPUTY SUPERINTENDENT OF PUBLIC INSTRUCTION, CALIFORNIA DEPARTMENT OF EDUCATION

STATEMENT OF LINDA M. CALBOM

Ms. CALBOM. Thank you, Mr. Chairman, Madam Chairwoman and Congresswoman Napolitano. Thank you very much for inviting me to come today to talk with you about the work that we have been doing on Recovery Act spending for the State of California.

My comments today will just very briefly touch on the Recovery Act spending and a few of the key programs we have been following in California. These include the highway infrastructure investment, weatherization assistance, and three of the education programs, including the State Fiscal Stabilization Fund.

As far as the highway funds, transportation officials in the State tell us that they have obligated 100 percent of their \$2.6 billion in funds that were apportioned to the State. The majority of these funds, about 65 percent, as some of the mayors were indicating, are committed to pavement widening and improvement projects.

Payment from the Federal Government for these and other highway projects comes on a reimbursable type basis. So as the contractors complete the work, then the money gets reimbursed. California has kind of lagged behind in the reimbursement. The rate is about 11 percent. The rest of country is at about 25 percent.

The transportation officials tell us that a lot of it has to do with the fact that California—about twice of their programs are administered at the local level, their projects are administered at the local level, as the average than the rest of the country. That just takes a little bit longer for the approvals to happen. They believe they are going to start to flow faster now.

As far as weatherization, again, a couple points. That program is a lot smaller than, for instance, the highways. It is \$186 million that's been allocated to the State, but this is a big increase in the typical funding for this program, which received only about \$14 million for fiscal year 2009.

You will hear more today about the weatherization of homes in California has been delayed, largely due to efforts to comply with some of the State efforts to make sure they are complying with the prevailing wage rates and other requirements of the Recovery Act.

The State Department of Community Services, which is responsible for administering this program, told us just about a week ago that they have now weatherized about 850 homes, but this is less than 2 percent of the 43,000 homes that they expect to weatherize with Recovery Act funds.

It is also well behind the pace that they need to maintain just to meet their upcoming quarterly goal of over 3,900 homes.

In the education area, as of about mid-February, the State had dispersed to the school districts and other local education agencies about \$4.7 billion in Recovery Act funds for Title 1, Part A, IDEA, Part B, and the largest by far, the State Fiscal Stabilization Fund. Most of these funds are being used to retain jobs.

Nonetheless, again as we heard earlier, more than half the school districts in the State still expect layoffs in the next school year.

We and others, including the State Auditor, have highlighted concerns related to the California Department of Education's cash management practices. Specifically, the early draw down in distribution of Title 1 Recovery Act funds, prior to the time the school districts were really in a position to use those funds. So what happens is there are issues with the State's compliance with Federal cash management practices, as well as requiring the school districts to have to calculate and remit interest on those funds.

The department has implemented a pilot program to try to correct this issue. They are piloting one small non-Recovery Act program right now. We want to see them develop some evaluations tools for this pilot and then expand it to some of the larger Recovery Act programs.

Just one more quick area on jobs reporting. California recipients reported over 70,000 jobs on Recovery.gov for the second quarterly period ending December 31st. This was the largest number of jobs recorded by any State for that quarter.

However, the California Department of Education, which accounted for about 35,000 of those jobs, so about half, reported those jobs using the old OMB jobs reporting guidance, which was issued December 18, 2009. So it was issued a bit late.

What that means is the jobs reporting for California was inconsistent for this quarterly period. The department does plan though to have the school districts revise these estimates during this open period we have right now in the Federal reporting system.

And then one other problem that we found with the school districts in the jobs reporting was that they were not consistently collecting and reporting vendor job numbers. So that is another area that is going to require some additional guidance and oversight to make sure the next period is more consistent.

That concludes my comments.

I will be happy to answer questions later on.

[The prepared statement of Ms. Calbom follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Government
Oversight and Reform, House of
Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
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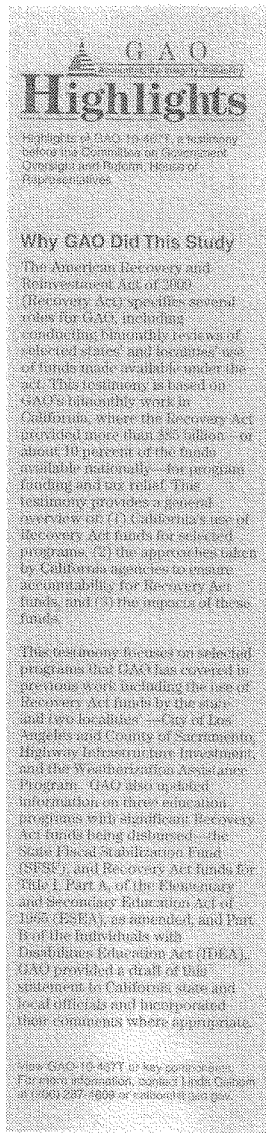
RECOVERY ACT

California's Use of Funds and Efforts to Ensure Accountability

Statement of Linda Calbom, Western Regional Director



GAO-10-467T



March 5, 2010

RECOVERY ACT

California's Use of Funds and Efforts to Ensure Accountability

What GAO Found

State and Local Budgets

Despite the influx of Recovery Act funds, California continues to face severe budgetary pressures and estimates a current shortfall of as much as \$21 billion—roughly one-quarter of the state's annual budget expenditures. California's cities and counties are also struggling with budget problems. According to officials from the City of Los Angeles and County of Sacramento, Recovery Act funds are helping to preserve essential services and repair infrastructure but have generally not helped stabilize their base budgets.

Transportation Infrastructure

According to California officials, 100 percent of California's \$2.570 billion highway infrastructure Recovery Act apportionment has been obligated. The state has dedicated most of these funds for pavement improvements—including resurfacing and rehabilitating roadways.

Weatherization Assistance

As of January 25, 2010, California had awarded about \$66 million to 35 local service providers throughout the state for weatherization activities. State and federal requirements, such as prevailing wage rates, as well as the implementation of these requirements, have delayed weatherization and, as of February 26, 2010, the state had weatherized only 849 homes—less than 2 percent of the 43,000 homes that are estimated to be weatherized with Recovery Act funds.

Education

As of February 19, 2010, California had distributed approximately \$4.7 billion for three education programs, including the SFSF. Local education agencies plan to use more than half of these funds to retain jobs; however, a majority reported that they still expect job losses. Also, cash management issues, related to federal cash balances and the calculation and remittance of interest, remain, but the California Department of Education has taken preliminary steps to resolve them.

Accountability

California oversight entities and state agencies have taken various actions to oversee Recovery Act funds, including training, risk assessments, on-site monitoring, and audits. The Governor established the Recovery Task Force to ensure funds are spent efficiently and effectively, and the State Auditor and Inspector General also have key oversight roles.

Jobs Reporting

Recipients reported that 70,745 jobs were funded in California during the last quarter of 2009. However, about 70 percent of these jobs were in education and were not reported using the Office of Management and Budget's (OMB) latest guidance, and therefore were not calculated consistently with other jobs reported.

Mr. Chairman and Members of the full Committee, Madame Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss our work in California examining the uses and planning for funds made available by the American Recovery and Reinvestment Act of 2009 (Recovery Act).¹ Congress and the administration have fashioned a significant response to what is generally reported to be the nation's most serious economic crisis since the Great Depression. The Recovery Act's combined tax provisions and spending are estimated to cost \$862 billion, including more than \$85 billion in tax relief and additional spending in California for investments in transportation infrastructure, education, weatherization assistance, and other programs.

The Recovery Act requires GAO, among other things, to conduct bimonthly reviews of selected states' and localities' use of funds made available under the act.² We issued our fifth bimonthly report on March 3, 2010, which summarized our work on a group of 16 states including California, the District of Columbia (the District), and selected localities.³ The selected jurisdictions for our in-depth reviews contain about 65 percent of the U.S. population and are estimated to receive collectively about two-thirds of the intergovernmental assistance available through the Recovery Act. We have issued individual summaries for California, other selected states, and the District four times. These summaries are accessible through GAO's recovery page at www.gao.gov/recovery. The Recovery Act also mandated GAO to comment quarterly on the estimates of jobs created or retained as reported by recipients of Recovery Act funding from federal agencies.⁴ We issued our initial report related to recipient reporting, including recommendations for recipient report improvements, on November 19, 2009,⁵ and our second report with updated information regarding the second round of recipient reports

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

²Recovery Act, div. A, title IX, §901, 123 Stat. 191.

³The states we are following as part of our analysis are Arizona, California, Colorado, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas.

⁴Recovery Act, div. A, §1512, 123 Stat. 287-88. We will refer to the quarterly reports required by section 1512 as recipient reports.

⁵GAO, *Recovery Act: Recipient Reported Jobs Data Provide Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, GAO-10-223 (Washington, D.C.: Nov. 19, 2009).

covering the period October 1, 2009 through December 31, 2009, on March 3, 2010.⁶

My statement today is based on our work in California and provides a general overview of (1) California's uses of Recovery Act funds for selected programs, (2) the approaches taken by California agencies to ensure accountability for Recovery Act funds, and (3) the impacts of these funds on creating and retaining jobs. My testimony focuses on selected programs that we have covered in our previous work including the use of Recovery Act funds by the state and two localities—City of Los Angeles and County of Sacramento—to help address their budget challenges, Highway Infrastructure Investment, and the Weatherization Assistance Program. In addition to these programs and issues, we updated information on three education programs with significant Recovery Act 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), Part B. Finally, I am discussing California's efforts to meet reporting requirements under section 1512 of the Recovery Act, and the information California recipients reported, which is publicly available on the www.recovery.gov (Recovery.gov) Web site.

We conducted performance audits for our bimonthly reviews in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

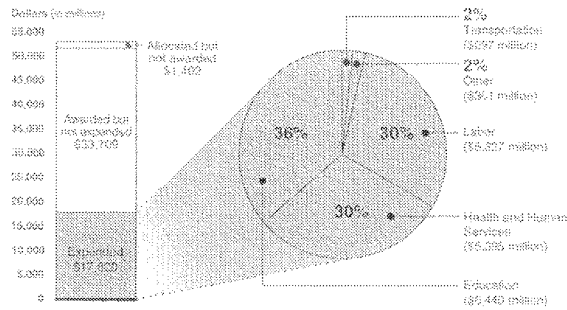
California is the nation's most populous state and the eighth-largest economy in the world. California is estimated to receive approximately \$85 billion in Recovery Act funds, or about 10 percent of the funds available nationally. Nearly 80 percent of Recovery Act funding to states and localities is projected to be distributed within the first 3 years. Peak projected outlays are in fiscal year 2010, with outlays that year projected to be more than twice the level of fiscal year 2009 outlays. The California

⁶GAO, *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, GAO-10-437 (Washington, D.C.: Mar. 3, 2010).

Recovery Task Force (Task Force), which was established by the Governor in March 2009, has overarching responsibility for ensuring that the state's Recovery Act funds are spent efficiently and effectively and are tracked and reported in a transparent manner. The Task Force reports on the use and status of Recovery Act funds using the state's recovery Web site (www.recovery.ca.gov). In addition to the Task Force's efforts, other California entities with oversight responsibilities, including the State Auditor, have expanded the scope of their work to include a focus on state programs receiving Recovery Act funds.

As of December 9, 2009, the Task Force estimated that approximately \$53 billion has been allocated to California state agencies and local governments, nonprofits, local education agencies, and private companies through spending programs. The remaining portion, approximately \$30 billion, is being provided to individuals and businesses in the form of direct tax relief. Approximately \$33.7 billion has been awarded and \$17.8 billion has been expended. As shown in figure 1, health, education, and labor accounted for almost 96 percent of California's Recovery Act expenditures. The largest programs within these areas were the state Medicaid program and SFSF.

Figure 1: California Estimated Recovery Act Funding and Expenditures for Programs as of December 09, 2009



Source: GAO analysis of California Recovery Act Task Force data.

Note: Totals may not add to 100 percent due to rounding. The actual dollar amounts will vary as Recovery Act dollars move from allocation estimates by the federal government to the actual amount awarded to California and eventually made available to the various programs to be spent by those programs. This graphic does not include the approximately \$30 billion in estimated tax relief funds for California.

To help measure the impact of the Recovery Act, the act contains numerous provisions that require recipients of Recovery Act funding to report quarterly on several measures. Nonfederal recipients of Recovery Act funds, such as state and local governments, private companies, educational institutions, and nonprofits, are required to submit reports with information on each project or activity, including amounts and a description of the use of funds and an estimate of the jobs created or retained. To collect this information, the U.S. 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 (FederalReporting.gov), and another site for the public to view and download recipient reports, Recovery.gov. Shortly before recipients could begin entering data into FederalReporting.gov for

the second quarterly reporting period, OMB issued a memorandum⁷ for the heads of U.S. executive departments and agencies on December 18, 2009, updating its reporting guidance on the Recovery Act, in response to suggestions made by recipients, agencies, and our recommendations. The updated guidance focuses on issues related to data quality, nonreporting recipients, and reporting of job estimates, among other important reporting requirements.

We previously reported that the Task Force, with the assistance of the state's Chief Information Officer (CIO), created and deployed a central information technology system for state departments to report quarterly recipient report data. For the first two rounds of recipient reporting, California established a centralized reporting system, the California ARRA Accountability Tool (CAAT), which state agencies receiving Recovery Act funds used to report their data to the Task Force. California's CIO, on behalf of the Task Force, was responsible for collecting the data from state agencies and uploading the data to FederalReporting.gov.

California's State and Local Governments Continue to Grapple with Budget Problems, but Recovery Act Funds Have Helped Preserve Services

California used Recovery Act funds to help balance the state fiscal year 2009-2010 budget, when the state faced a nearly \$60 billion budget gap, and future budget shortfalls are expected.⁸ As discussed in our prior reports, California balanced its state fiscal year 2009-2010 budget by, among other things, making more than \$31 billion in cuts, increasing taxes by \$12.5 billion, and using over \$8 billion in Recovery Act funds. However, California's long-term fiscal prospects remain of concern. For example, in November 2009, the Legislative Analyst's Office (LAO) estimated the size of the 2009-2010 and 2010-2011 budget shortfall at about \$21 billion.⁹ According to the LAO, the main reasons for the budget gaps are: the inability of the state to achieve previous budget solutions in several areas, the effects of several adverse court rulings and, for 2010-2011, the expiration of various one-time and temporary budget solutions approved

⁷OMB Memoranda, 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).

⁸See GAO, *State and Local Governments' Fiscal Outlook March 2010 Update*, GAO-10-358 (Washington, D.C.: Mar. 2, 2010). This and related products can be found at <http://gao.gov/special.pubs/longterm/longterm.html>.

⁹Included in the estimated \$21 billion budget shortfall is an estimated \$6.3 billion general fund deficit at the end of 2009-2010.

in 2009. The Governor's 2010-2011 budget proposal was somewhat more optimistic and identified a \$18.9 billion budget shortfall. Nonetheless, the budget gap constitutes roughly one-quarter of the state's annual budget expenditures.

The Governor declared a fiscal emergency on January 8, 2010, calling the legislature into special session to act on his proposed solutions to address the budget shortfall. Those proposed solutions include reductions in state programs, shifts of state funds to pay for general fund expenses, and requests for additional federal funds and greater flexibility. On January 22, 2010, the state Controller urged the state legislature and Governor to address the state's projected budget and cash shortfalls for the remainder of the current fiscal year, as well as the next fiscal year, in order to protect California's economic recovery, continue the financing of public works projects, and prevent even greater financial hardship. Further, the Controller stated that, if the budget situation is not resolved, the legislature and Governor will again face the prospect of a cash crisis beginning in July 2010.¹⁰

Local city and county governments in California are also struggling with declining revenues and budget problems. Additionally, local governments are affected by the fiscal situation of the state as a number of revenue sources—such as sales tax, gas tax, vehicle license, and many others—pass through the state. For example, in order to balance the California's fiscal year 2009-2010 budget, state leaders agreed to borrow almost \$2 billion in local property tax revenue and make \$877 million in local government transportation revenue available to the state general fund for transit debt service. Officials we met with in the City of Los Angeles (Los Angeles) and the County of Sacramento said that they face budget shortfalls this fiscal year due to declines in state funding for programs, tax revenues, and fees. (Fig. 2 highlights information about the two local governments we reviewed.) For example, a Los Angeles official told us that, for the remainder of fiscal year 2010, they are trying to close a deficit of \$212 million and have a projected \$485 million deficit for fiscal year 2011. Sacramento County officials reported that the county is facing a nearly \$14 million general fund budget shortfall for the remainder of fiscal year 2009-2010, and faces cuts of around \$149 million for next fiscal year.¹¹

¹⁰In July 2009, severe cash deficits forced the Controller's Office to issue registered warrants, called IOUs, to meet the state's payment obligations.

¹¹According to County of Sacramento officials, the health and human services area is the most impacted by the budget shortfall.

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.

Figure 2: Information about Sacramento County and Los Angeles

	Sacramento	Los Angeles
Estimated population (2009):	1,004,154	3,805,265
Unemployment rate (November 2009):	12.7%	13.9%
Budget FY10: (change from FY09):	\$4.3 billion (-14.0%)	\$2.6 billion (-11.0%)
Locality type:	County	Metropolitan city

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

Note: Population data are from July 1, 2008. Unemployment rates have not been seasonally adjusted. Rates are a percentage of the labor force.

Overall, as of February 18, 2010, a Los Angeles official reported that the city had been awarded about \$597 million in Recovery Act grants, and Sacramento County officials reported the county had been awarded about \$88 million in Recovery Act formula grants as of January 15. Most Recovery Act funds to local governments flow through existing federal grant programs. Some of these funds are provided directly to the local government by federal agencies, and others are passed from the federal agencies through state governments to local agencies. As shown in table 1, local officials reported their governments' use of Recovery Act funds in program areas including public safety (Edward Byrne Memorial Justice Assistance Grant (JAG)) and Energy Efficiency and Conservation Block Grant (EECBG). Other Recovery Act funds received by these localities included formula grants for prevention of Internet crimes against children, public housing, emergency shelter, health centers, capital improvements, airport security and improvement, transportation, and additional competitive grant awards. Officials reported that Los Angeles has applied for about \$893 million in additional Recovery Act grants, and the County of Sacramento has applied for an additional \$330 million in competitive grants.

Table 1: Selected Examples of Local Governments' Use of Recovery Act Funds

Local government	JAG	EECBG
Los Angeles	Los Angeles is using a \$30.5 million grant to work with the County of Los Angeles and 75 jurisdictions within the county to improve law enforcement operations, including interoperability of communication systems to deal with region-wide emergencies.	Los Angeles was awarded a \$37 million grant that it intends to use for several categories of projects including energy efficiency retrofit programs, research and technology strategies, financing programs, and energy efficiency incentives.
County of Sacramento	County is using a \$1.9 million grant for a gang suppression unit project that seeks to reduce crime and violence through community supervision efforts that target identified gang members. The Recovery Act grant will fund six community probation supervisor positions that work with high-risk gang offenders.	County was awarded a \$5.4 million grant that it intends to use for a combination of county facility projects that will reduce operational costs and improve the energy efficiency of its infrastructure resulting in energy cost savings and job creation. Funds will also be used for a Climate Action Implementation Plan, Green Building standards, and a municipal financing program for property owners that make energy efficiency improvements.

Sources: GAO analysis of information provided by City of Los Angeles and County of Sacramento and as reported on www.recovery.gov.

**Nearly All of
California's Highway
Funds Have Been
Obligated to
Pavement and
Infrastructure
Projects and
California Continues
to Take Steps to Meet
Recovery Act
Requirements**

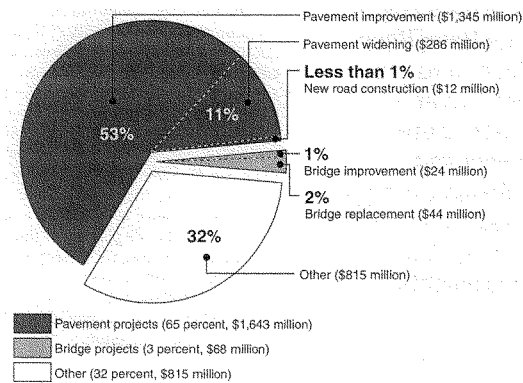
In March 2009, California was apportioned \$2.570 billion in Recovery Act funds for the restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program. As of February 16, 2010, the U.S. Department of Transportation (DOT) Federal Highway Administration (FHWA) had obligated \$2.525 billion (98 percent) of California's apportionment.¹² Highway funds are apportioned to states through federal-aid highway program mechanisms, and states must follow existing program requirements, which include ensuring each project meets all environmental requirements associated with the National Environmental Policy Act (NEPA), complying with goals to ensure disadvantaged businesses are not discriminated against in the awarding of construction contracts, and using American-made iron and steel in accordance with Buy American requirements. The Recovery Act also required that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. In California, according to state sources, a state law enacted in late March 2009, increased the suballocation so that more—62.5 percent of the \$2.570 billion (\$1.606 billion)—would be allocated to local governments for projects of their selection.

**California Has Dedicated
Most of Its Recovery Act
Highway Funds for
Pavement Projects and
Continues to Monitor
Federal Reimbursements**

The majority of Recovery Act highway obligations for California have been for pavement improvements—including resurfacing, rehabilitating, and constructing roadways. Of the funds obligated, approximately 65 percent (\$1.643 billion) is being used for pavement widening and improvement projects, while 32 percent (\$815 million) is being used for safety and transportation enhancements, and 3 percent (\$68 million) for bridge replacement and improvement projects. Figure 3 shows obligations in California by the types of road and bridge improvements being made.

¹²DOT has interpreted the term, obligation of funds, to mean the federal government's commitment to pay for the federal share of a project. This commitment occurs at the time the federal government signs a project agreement (highways) or grant agreement (public transportation). This amount does not include obligations associated with the \$27 million of apportioned funds that were transferred from FHWA to the Federal Transit Administration (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.

Figure 3: Breakdown of Highway Obligations in California as of February 16, 2010, by Project Type

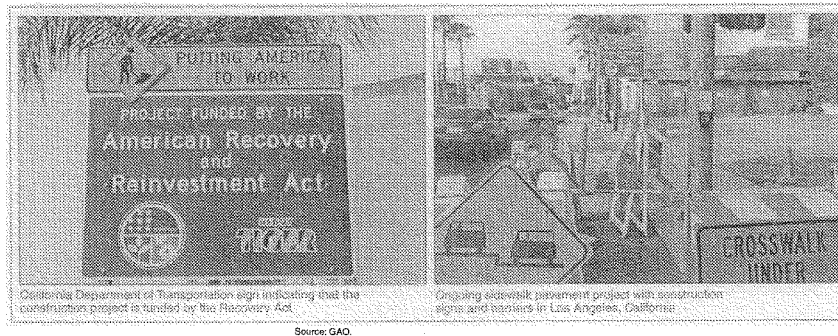


Source: GAO analysis of FHWA data.

Note: Totals may not add to 100 percent due to rounding. "Other" includes safety projects, such as improving safety at railroad grade crossings and transportation enhancement projects, such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

According to information reported on Recovery.gov, as of December 31, 2009, California funded 761 highway infrastructure projects with Recovery Act funds. Fourteen percent, or 103 of these projects, were completed, 34 percent (268 projects) were under way, and about 51 percent (390 projects) had not yet started. Projects under way, which were in various stages of completion, accounted for over \$1 billion in obligations, and projects that have been obligated funds but had not yet started, had an estimated value of almost \$953 million. (See fig. 4 for an example of Recovery Act-funded pavement project.)

Figure 4: Example of Recovery Act Funded Sidewalk Pavement Project Under Way in Los Angeles, California



Under both the Recovery Act and the regular Federal-Aid Highway Surface Transportation Program, California has considerable latitude in selecting projects to meet its transportation goals and needs. California Department of Transportation (Caltrans) officials reported using the state portion to fund state highway rehabilitation and maintenance projects that would not have otherwise been funded due to significant funding limitations. In addition to maintenance projects, the state has allocated Recovery Act funds to large construction projects, including one of the largest transportation investments, approximately \$197.5 million for the construction of the Caldecott Tunnel, a new two-lane, bore tunnel connecting Contra Costa and Alameda counties. In addition, as previously mentioned, according to state officials, a March 2009 state law provided more funding directly to local governments, allowing a number of locally important projects to be funded. For example, \$319 million in Recovery Act funds were obligated for 195 local projects in the Los Angeles area that may not have otherwise been funded in 2009, such as the Compton Boulevard resurfacing project. This project received approximately \$750,000 in Recovery Act funds and would not have been funded for many years without these funds.

As of February 16, 2010, \$273 million of the \$2.525 billion obligated to California highway projects had been reimbursed by FHWA.¹³ Although federal reimbursements in California have increased over time, from \$22 million in September 2009 to \$273 million, this rate, 11 percent, continues to be lower than the amount reimbursed nationwide, 25 percent (\$6.3 billion) of the \$25.1 billion obligated. As we reported in December 2009, Caltrans officials attributed the lower reimbursement rate to having a majority of its projects administered by local governments, which 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 administered by local agencies generally call for a local review and a local public notice period, which can add nearly 6 weeks to the process. Additionally, 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. Caltrans has started to monitor pending invoices submitted by local agencies for Recovery Act projects to better assess how quickly Recovery Act funds are being spent.

California Reported Meeting the 1-Year Obligation Deadline and Is Taking Steps to Meet Other Recovery Act Requirements

The Recovery Act required states to ensure that all apportioned Recovery Act funds were obligated within 1 year after apportionment and, according to Caltrans officials, as of February 18, 2010, 100 percent of California's highway infrastructure Recovery Act apportionment has been obligated.¹⁴ If any states did not meet this requirement by March 2, 2010, the Secretary of Transportation would withdraw and redistribute the unobligated funding to other eligible states. Any Recovery Act funds that are withdrawn and redistributed are available for obligation until September 30, 2010.

In addition to meeting the 1-year obligation deadline under the Recovery Act, Caltrans has also been working to meet two other Recovery Act requirements that do not exist in the regular Federal-Aid Highway Surface

¹³States request reimbursement from FHWA as they make payments to contractors working on approved projects.

¹⁴At the end of our fieldwork, obligation amounts had not been confirmed. Our prior work identified challenges and issues associated with meeting the 1-year deadline including unexpected deobligation requests as a result of savings from contract awards that were less than the state engineers' estimates.

Transportation Program: (1) identification of economically distressed areas and (2) maintenance of effort.

- *Identifying economically distressed areas.* As we reported in December 2009, Caltrans revised its economically distressed areas determination using new guidance issued to states in August 2009 by FHWA, in consultation with the Department of Commerce, giving more direction on "special needs" criteria for areas that do not meet the statutory criteria in the Public Works and Economic Development Act.¹⁵ As a result, the number of counties considered distressed increased from 49 to all 58 counties. According to Caltrans officials, this new determination did not change how it funded or administered Recovery Act projects. Caltrans officials told us that, in selecting projects for funding, they first considered how quickly the project could be started and its potential to create and retain jobs, then considered the extent of need with each economically distressed area. The Recovery Act requires states to give priority to projects that can be completed within 3 years and to projects located in economically distressed areas.¹⁶ Recently, FHWA reviewed the documentation that California used in its application of special needs criteria and determined that the data used were not consistent with FHWA guidance. Caltrans has been advised that the data must show a connection between demonstrated severe job losses and actual, identified firm closures and restructuring. On February 24, 2010, Caltrans officials reported that Caltrans was working to address FHWA's data concerns by evaluating methods to assess the job losses without the use confidential data.

¹⁵In July 2009, we identified substantial variation in the extent to which states prioritized projects in economically distressed areas and how they identified these areas and recommended that DOT provide clear guidance to states on methodologies for determining economically distressed areas. See GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses*, GAO-09-829 (Washington, D.C.: July 8, 2009).

¹⁶Economically distressed areas are defined by the Public Works and Economic Development Act of 1965, as amended. To qualify as an economically distressed area, an area must (1) have a per capita income of 80 percent or less of the national average; (2) have an unemployment rate that is, for the most recent 24-month period for which data are available, at least 1 percent greater than the national average unemployment rate; or (3) be an area the Secretary of Commerce determines has experienced or is about to experience a "special need" arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short- or long-term changes in economic conditions.

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- *Maintaining effort.* While California is still reviewing its current maintenance-of-effort certification, it does not anticipate difficulty in maintaining the level of spending for transportation projects funded by the Recovery Act that it planned to spend as of February 17, 2009—the day the Recovery Act was enacted.¹⁷ California, like many other states, had to revise its initial March 5, 2009, certification, because the certification included a conditional statement, which was not permitted by the Recovery Act. On February 9, 2010, DOT requested that each state review its current certification and take any corrective action with regard to the state's calculation of the maintenance-of-effort amount on or before March 11, 2010. Although California is reviewing its certification, Caltrans officials maintain that California expects to meet the planned level of spending, in part because the state reinstated a transportation bond program worth approximately \$20 billion.

Home Weatherization Was Delayed Across California, Largely Due to State and Federal Requirements

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which the Department of Energy (DOE) is distributing to each of the states, the District, and seven territories and Indian tribes, to be spent over a 3-year period.¹⁸ This program helps low-income families 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. DOE has limited states' access to 50 percent of these funds and plans to provide access to the remaining funds once a state meets certain performance milestones, including weatherizing 30 percent of all the homes in its state plan that it estimates it will weatherize with Recovery Act funds. In addition, the Recovery Act requires all laborers employed by contractors and subcontractors on Recovery Act projects to be paid at least the prevailing wage, as determined under the Davis-Bacon Act. The Department of Labor (Labor) first established prevailing wage rates for weatherization in all of the 50 states and the District by September 3, 2009.

¹⁷Recovery Act, div. A, § 1201(a). The Recovery Act required the state to certify that it will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the Governor of each state is required to identify the amount of funds the state planned to expend from state sources from February 17, 2009, through September 30, 2010.

¹⁸The Recovery Act appropriation represents a significant increase over the approximately \$225 million that the program has received annually in recent years.

DOE allocated approximately \$186 million in Recovery Act funds for weatherization in California. This represents a large increase in funding over California's annually appropriated weatherization program, which received about \$14 million for fiscal year 2009. By June 2009, DOE had provided 50 percent—about \$93 million—of the Recovery Act funds to the California Department of Community Services and Development (CSD), the state agency responsible for administering the state's weatherization program. In late July, the state legislature approved CSD's use of these funds. Of the funds received, CSD retained about \$16 million to support oversight, training, and other state activities. CSD has begun distributing the remaining \$77 million throughout its existing network of local weatherization service providers, including nonprofit organizations and local governments.¹⁹

Home Weatherization Has Started in California, but Service Providers Are Still Being Developed for Los Angeles and the San Francisco Bay Area

According to CSD, as of January 25, 2010, CSD had awarded about \$66 million of the \$77 million to 35 local service providers throughout the state for planning, purchasing equipment, hiring and training, and weatherizing homes. This amount includes \$14.3 million to two service providers for three of the four service areas in the County of Los Angeles. It also includes almost \$3 million and \$3.8 million, respectively, to the service providers for Orange and Riverside counties. CSD has not yet awarded the remaining funds—approximately \$10 million—to service providers for the remaining part of the County of Los Angeles, parts of Alameda County, Alpine County, El Dorado County, Santa Clara County, San Francisco County, and Siskiyou County. For these areas, CSD has been either seeking a new service provider or is withholding funds pending the completion of an investigation of the designated service provider. CSD reported that, as of December 31, 2009, CSD and its service providers spent approximately \$10 million—or about 5 percent—of the Recovery Act funds on weatherization-related activities. Also, according to CSD, 849 homes were weatherized as of February 26, 2010, which is less than 2 percent of the approximately 43,000 homes that CSD currently estimates will be weatherized with Recovery Act funds. In particular, 7 homes have

¹⁹According to CSD, California currently has 43 designated service areas. However, local providers may serve more than one designated service area. For example, the Redwood Community Action Agency provides weatherization services for the two areas covering both Modoc and Humboldt Counties.

been weatherized in the County of Los Angeles, and 0 and 20 homes have been weatherized in Orange and Riverside counties, respectively.²⁰

State and Federal Requirements Have Delayed Weatherization in California

Weatherization in California has been delayed, in part, because (1) CSD decided to wait until Labor determined the state's prevailing wage rates, which occurred on September 3, 2009, and (2) after the prevailing wage rates were determined, local service providers raised concerns about an amendment CSD is requiring them to adopt to their Recovery Act weatherization contracts to ensure compliance with the act. CSD officials explained that, in anticipation of additional staffing and administration challenges for service providers, they wanted more clearly defined Davis-Bacon Act requirements, including the actual wage rates, before spending Recovery Act funds. CSD estimates that waiting for the wage rate determinations delayed weatherization in California for 2 to 3 months.²¹ CSD reported to us that, although the rate determinations for two of three weatherization-related job categories are mostly similar to what service providers currently pay, the rates for the third category—heating, ventilating, and air conditioning work—are much higher and will, thus, lead to cost increases.²² CSD also reported that it expects that the Davis-Bacon Act administrative requirements—including expanding existing administrative and accounting systems, updating payroll documentation and reporting, and increasing subcontractor monitoring—will have a substantial impact on program costs. For example, CSD must seek a replacement service provider for three of the previously discussed designated service areas because the existing three providers for these

²⁰DOE collects data reported by states and territories on the number of homes weatherized and on state and territory expenditures of funds on a quarterly basis. The data reported by states as of a certain date (such as for the quarter ending December 31, 2009) can change as states finalize figures for homes weatherized and funds spent. DOE originally planned to weatherize 593,000 homes with Recovery Act funding by March 31, 2012. A DOE report issued on February 24, 2010, indicated that 30,252 homes had been weatherized nationwide as of December 31, 2009, though numbers are not yet finalized. See GAO-10-437.

²¹In July 2009, DOE and Labor issued a joint memorandum authorizing grantees to begin weatherizing homes using Recovery Act funds, provided they pay workers at least Labor's wage rates for residential construction, or an appropriate alternative category, and compensate workers for any differences if Labor establishes a higher local prevailing wage rate for weatherization activities.

²²The three weatherization-related job categories are (1) general weatherization work, including minor repairs, caulking, and the installation of smoke detectors; (2) the replacement of doors and windows; and (3) all associated work involved with the installation and repair of heating, ventilating, and air conditioning systems.

areas chose not to participate in the Recovery Act-funded weatherization activities due, in part, to concerns that the funding did not adequately support these increased administrative requirements. CSD also reported that its service providers have had difficulty identifying subcontractors willing to comply with the Davis-Bacon Act requirements.

According to state officials, CSD is requiring 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 provisions, 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 formally issued a modified amendment on December 17, 2009. However, prior to December 17, CSD announced steps that providers could take to accept the modified amendment in advance of its formal issuance and, thus, begin weatherizing homes sooner. Twenty-six service providers accepted the modified amendment in advance of the formal issuance and, to date, all active service providers have adopted the amendment. According to state officials, the amendment requires service providers to submit a wage plan for meeting the Davis-Bacon Act requirements before receiving any funds to weatherize homes. As of February 24, 2010, 26 service providers have submitted wage plans, all of which CSD has approved. Finally, CSD has plans to issue an additional contract amendment by the end of March, 2010 to, among other things, release new prevailing wages rates issued by Labor in December 2009. A CSD official told us that the department does not anticipate any delays in implementing this amendment.

Concerns Exist about
California's Ability to
Timely Access and Manage
Its Remaining
Weatherization Funds

In a February 2, 2010, audit of CSD, the State Auditor reported that delays in weatherizing homes could jeopardize CSD's ability to meet DOE's performance milestones and, thus, its ability to timely access the remaining \$93 million in Recovery Act weatherization funds.²³ Thirty percent of all homes estimated to be weatherized in the state plans approved by DOE must be completed before the remaining funds may be accessed. The State Auditor also found that CSD needs to improve its control over cash management and that it lacks written procedures for preparing program reports. In its response to the report, CSD stated that it plans to meet DOE's performance milestones by redirecting funds from areas without service providers to providers with the capacity to weatherize more homes. CSD also outlined steps it is taking to provide weatherization services to the previously discussed unserved areas where it is either seeking a new service provider or withholding funds. Our prior reports have also highlighted delays in this program, and we plan to continue to follow California's progress in using Recovery Act weatherization funds, including:

- *Number of homes weatherized.* Although CSD has developed quarterly targets for weatherizing enough homes to meet DOE's performance milestones, it is too early to assess whether service providers are meeting these targets. However, as of February 26, 2010, CSD reported that the state had weatherized only 849 of the 3,912 homes targeted for the first quarter of the 2010 calendar year.
- *Service areas without weatherization providers.* According to CSD, 6 out of 43 designated service areas do not yet have service providers that are ready to begin weatherizing homes with Recovery Act funds. According to CSD's latest estimates, these service areas account for 3,624—or over 8 percent—of the approximately 43,000 homes that it currently plans to weatherize with Recovery Act funds.
- *Additional contract amendment forthcoming.* In light of service providers' resistance to CSD's first contract amendment process, CSD cannot be certain that its upcoming attempt to revise contracts will not be met with some level of resistance from providers and, therefore, lead to additional delays in weatherizing homes.

²³California 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, CA: Feb. 2, 2010).

In response to the State Auditor's findings, the Task Force stated that it is working with CSD to improve internal controls and streamline contract approvals and that the Task Force is committed to ensuring that California "does not leave one dollar of Recovery Act funding on the table."

California Primarily Used Recovery Act Education Funds to Retain Jobs and Is Working to Address Its Cash Management Issues

As of February 19, 2010, California disbursed approximately \$4.7 billion in Recovery Act education funds for three programs—SFSF; ESEA Title I, Part A, as amended; and IDEA, Part B. These funds were allocated to local educational agencies (LEA), special education local plan areas, and institutions of higher education (IHE). Specifically, California was allocated \$5.47 billion in SFSF funds to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other government services. Under the Recovery Act, states must allocate 81.8 percent of their SFSF to support education (education stabilization funds), and the remaining 18.2 percent must be used for public safety and other government services, which may include education programs. California has received about \$1.1 billion in SFSF government services funds that it used for payroll costs for its corrections system and has received about \$4 billion in SFSF education stabilization funds. California also received approximately \$464 million in Recovery Act ESEA Title I, Part A funding, which supports education for disadvantaged students and about \$286 million in IDEA funding, which supports special education efforts.

LEAs Are Primarily Using Recovery Act Funds to Retain Jobs but Still Anticipate Job Losses

The majority of LEAs in California said they anticipate using more than half of their Recovery Act funds to retain jobs. As of December 31, 2009, the California Department of Education (CDE) reported that LEAs in the state funded a total of nearly 50,000 education jobs—mostly teachers—with the three Recovery Act education funding programs in our review, with approximately 39,000 of those jobs funded by SFSF.²⁴ In the Los Angeles Unified School District (LA Unified), according to district officials, almost 6,400 jobs were funded by the three Recovery Act programs. LA Unified officials said that, without the Recovery Act funds, teacher layoffs could have caused increased class size, with a resulting loss of individual attention to each student. Yet, even with SFSF funds, an

²⁴As discussed later in this testimony, for the purposes of the second quarterly report, CDE did not implement OMB's latest reporting guidance, which may have resulted in data that are not comparable to that reported by other states.

estimated 50 percent of the California LEAs reported that they expect job losses. Recently, officials from two large California LEAs told us that their districts anticipate teacher and other staff layoffs for the next school year to address budget shortfalls. According to a senior LA Unified official, the district may face teacher and support staff cuts of 7,000 to 8,000 to balance its budget for the 2010-2011 school year.

While LEAs are using a large portion of their Recovery Act funds for jobs, LEAs we met with told us they also planned to use funds for other eligible activities, such as purchasing textbooks and funding deferred facility maintenance, among other program uses. We visited two LEAs in California—the Los Angeles Unified School District and Alvina Elementary Charter School in Fresno County—to find out more about how they are spending Recovery Act funds, see table 2 for a description of these uses.

Table 2: Planned Uses of Recovery Act Funds at Two 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 <ul style="list-style-type: none"> • reduce reliance on contracting staff 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 Elementary Charter School	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 textbooks.

Sources: GAO analysis of information provided by the Los Angeles Unified School District and Alvina Elementary Charter School.

LEAs also awarded contracts for services and materials using Recovery Act funds. Although including provisions related to the Recovery Act is not a requirement under the act, LEA officials we met with stated that including Recovery Act provisions in contracts could have been useful in helping vendors understand Recovery Act requirements, including

reporting requirements. However, none of the contracts we reviewed included provisions related to Recovery Act requirements. We met with seven LEAs that awarded contracts using either SFSP or ESEA Title I Recovery Act funds, or both, for services, such as tutoring, professional development for teachers, for special programs for students, and for equipment. According to LEA officials and our review of contracts, contract terms did not include specific Recovery Act requirements, such as wage rate requirements, whistle blower protection, and reporting requirements. LEA officials stated that they neither received guidance from CDE regarding the administration of Recovery Act contracts, nor were they aware of Recovery Act specific contract terms and conditions. Two of the LEAs we met with told us that they plan to include Recovery Act terms and conditions in future contracts.

California Has Taken Initial Steps to Resolve Its Ongoing Cash Management Issues

Our prior reports highlighted concerns related to CDE's and LEAs' ESEA Title I, Part A, cash management practices—specifically CDE's early drawdown of ESEA Title I Recovery Act funding and the release of \$450 million (80 percent) of the funds to LEAs on May 28, 2009. According to CDE officials, the drawdown was in lieu of its normally scheduled drawdown of school year 2008-2009 ESEA Title I funds and, therefore, the schools would be ready to use the funds quickly. However, in August 2009, we contacted the 10 LEAs in California that had received the largest amounts of ESEA Title I, Part A Recovery Act funds and found that 7 had not spent any of these funds and that all 10 reported large cash balances—ranging from \$4.5 million to about \$140.5 million. This raised issues about the state's compliance with applicable cash management requirements. In response to cash management concerns,²⁵ CDE implemented a pilot

²⁵Both the California State Auditor and the Education Inspector General have cited deficiencies in CDE and LEA ESEA Title I cash management. The Single Audit issued by the State Auditor in May 2009 found that CDE had disbursed over \$1.6 billion to LEAs during the fiscal year ending June 30, 2008, with no assurances that the LEAs minimized the time between the receipt and disbursement of federal funds, as required by federal regulations. The report also noted that CDE did not ensure that interest earned on federal program advances is remitted on at least a quarterly basis. (See *State of California Internal Control and State Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008*, May 2009, Report 2008-002.) Additionally, the Education Inspector General reported in March 2009 that CDE needed to strengthen controls to ensure that LEAs correctly calculate and promptly remit interest earned on federal cash advances. (See ED-IG/A09H0020, March 2009.) Finally, the Education Inspector General also reported in January 2010 that the California Department of Education needs to ensure that LEAs receive Recovery Act ESEA Title I and SFSP funds, when needed, to pay program costs and remit interest earned on cash advances in a timely manner.

program to help monitor LEA compliance with federal cash management requirements. The program uses a Web-based quarterly reporting process to track LEA cash balances. Currently, the pilot program collects cash balance information from LEAs that receive funds under one relatively small non-Recovery Act program. CDE officials told us that they plan to expand the pilot to include regular and Recovery Act ESEA Title I, Part A, and SFSF by October 2010. CDE has collected data from LEAs for two quarters and has conducted an analysis to compare drawdown amounts from prior fiscal years. However, CDE has not yet established performance goals for the pilot program or developed a program evaluation plan.

We also raised concerns about the inconsistent interest calculation and payment remittance processes at LEAs in California. CDE has since developed an interest calculation methodology and, on January 25, 2010, provided guidance to all LEAs on calculating and remitting interest on federal cash balances. CDE officials also told us that they plan to monitor LEA remittance of interest from Recovery Act funded programs by reviewing expenditure data LEAs submit in their quarterly recipient reports and verifying that the LEA remitted appropriate interest amounts. However, CDE has not yet developed mechanisms to help ensure LEAs are using sound interest calculation methods and promptly remitting interest earned on federal cash advances for non-Recovery Act funded programs. We plan to continue following this cash management issue in our ongoing bimonthly work.

Numerous State Entities and Agencies Are Engaged in Overseeing Recovery Act Funds

Since the Recovery Act was enacted in February 2009, California oversight entities and state agencies have taken various actions to oversee the use of Recovery Act funds. State oversight entities, for example, have conducted risk assessments of internal control systems and provided guidance to recipients 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. In addition to these entities, state agencies are responsible for, and involved in, oversight and audits of Recovery Act programs. Although certain federal agencies and Inspectors General also have various oversight roles, our review has focused on the state efforts.

As mentioned in our previous reports, the Task Force was established by the Governor to track Recovery Act funds that come into the state and ensure that those funds are spent efficiently and effectively.²⁶ The Task Force is relying on California's existing internal control framework to oversee Recovery Act funds, supplemented by additional oversight mechanisms. Several agencies and offices play key roles in overseeing state operations and helping ensure compliance with state law and policy. The key oversight entities are the Task Force, the state's Recovery Act Inspector General, and the State Auditor. Their key oversight roles are summarized in table 3.

Table 3: Overview of Key Oversight Roles in California

Entity	Prevention	Readiness/risk assessment	Audits	Technical assistance	Investigations
Task Force	Provide education, training, and guidance to state recipients on appropriate use of Recovery Act funds.	Monitor department activities and support allocation of funds.	Reviews of recipient reports.	Provide technical assistance on reporting and appropriate use of funds.	N/A
Recovery Act Inspector General	Coordinate training for state and local governments on oversight and prevention of fraud, waste, and abuse.	Interview recipient departments and ascertain plans for ensuring oversight of expenditures. Identify risks based on prior audits, reviews, and program characteristics.	Limited-scope reviews and audits evaluating indicators of waste, fraud, and abuse.	Analyze deficiencies and provide a framework to prevent future problems.	Investigate complaints directed to the Recovery Act Inspector General's Office.
State Auditor	Conduct early reviews and testing of internal controls.	Identify risks based on prior Single Audit findings, Recovery Act funding, and federal guidance.	Single Audit for state departments.	N/A	Investigate or refer whistle blower complaints.

Source: GAO's analysis of California's Recovery Act Oversight Plan.

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 30 *Recovery Act Bulletins* to

²⁶The Task Force is also charged with working with the President's administration, helping cities, counties, nonprofits, and others access the available funding; and maintaining a Web site (www.recovery.ca.gov) that contains updated information about California's Recovery Act funds.

provide instructions and guidelines to state agencies receiving Recovery Act funds on topics ranging from recipient reporting requirements related to jobs to appropriate cash management practices. Additionally, the California Recovery Act Inspector General 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 December 2009, the California State Auditor's office published five letters or reports on the results of early testing and/or preparedness reviews conducted on 25 Recovery Act programs at nine 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.

California agency officials and internal auditors, from state departments that manage transportation, education, and weatherization programs, are engaged to various degrees in the oversight and auditing of Recovery Act funds. Table 4 provides an overview of selected oversight and auditing activities of these agencies.

Table 4: Selected Oversight Activities by State Agency

State agency	Oversight activities
Caltrans	<ul style="list-style-type: none"> An internal audit team is currently reviewing the Recovery Act Local Assistance Program and expects to report sometime later this year. An internal audit team conducted a limited scope review of full-time equivalent (FTE) calculations for the most recent quarterly job reports. An audit of the Recovery Act Project Management/Construction, which will focus on contracts administered by Caltrans, is planned for later this year.
CDE	<ul style="list-style-type: none"> According to CDE officials, they assess the reasonableness of the information reported by LEAs to CDE to meet the Recovery Act's recipient reporting requirement. CDE plans to conduct desk and field reviews of LEA's compliance with federal and state requirements. CDE plans to conduct 11 field reviews by the end of fiscal year 2010, in conjunction with its risk assessment. These reviews will take into consideration the amount of funding received by LEAs and open audit findings.

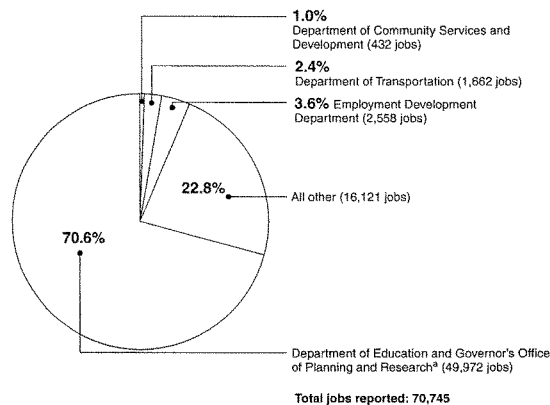
State agency	Oversight activities
CSD	<ul style="list-style-type: none"> CSD's oversight of its weatherization program includes a combination of monthly, quarterly, and annual desk reviews; routine on-site program monitoring; and an annual review of independent auditors' reports. CSD conducts annual on-site monitoring of service providers and requires them to ensure that all contractors' postinstallation work meets standards; CSD plans to increase the frequency of the postinstallation inspections to a quarterly basis. CSD also plans to review service providers for program compliance, track expenditures, document support time spent on projects, and conduct field inspections of 5 to 20 percent of weatherized homes. CSD formed a team—chaired by the Chief Deputy Director and including key managers and staff—to design and implement work plans to help ensure compliance with OMB, DOE, and related state requirements and Recovery Act goals.

Sources: GAO analysis of information provided by Caltrans, CDE, and CSD.

California Reported That Over 70,000 Jobs Were Funded during the Last Quarter of 2009, but OMB's New Reporting Guidance Was Not Consistently Implemented

As reported on Recovery.gov, as of February 23, 2010, California recipients reported funding 70,745 jobs with Recovery Act funds during the second quarterly reporting period ending on December 31, 2009. This was the largest number of jobs reported by any state for this quarter. The Recovery Act provided funding through a wide range of federal programs and agencies. Over 30 California state agencies have or are expected to receive Recovery Act funds and were required to report job estimates. Figure 5 shows the number and share of jobs funded by state agencies receiving Recovery Act funds, as reported on Recovery.gov. Education programs accounted for approximately 71 percent, about 50,000 jobs—38,924 under SFSF, and 11,048 under other programs administered by CDE.

Figure 5: Jobs Reported by California State Program Agencies as Recipients of Recovery Act Funding



Source: Recovery.gov.

Note: Data as of February 10, 2010, and updated through February 23, 2010. Totals may not add to 100 percent due to rounding.

*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 State Fiscal Stabilization Fund.

Task Force officials reported that new reporting guidance issued by OMB—approximately 2 weeks before recipients were to begin reporting—was implemented by most state agencies, but the notable exception was CDE, which continued to follow the old guidance. On December 18, 2009, OMB updated its reporting guidance, and the Task Force advised California recipients that there were some notable changes, specifically as follows:

- Recipients do not have to determine if a particular employee or job classification would have been laid off without the receipt of Recovery Act funds (i.e., retained), as they did before. If a position is being funded by the Recovery Act, the hours should be included in the number of jobs created;

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- Recipients are no longer required to sum hours across reporting quarters or provide cumulative totals. Instead, they report jobs on a quarterly basis, providing a quarterly snapshot; and
 - Recipients will find the federal reporting system open in February to correct data reported during January.

The new OMB guidance still required recipients to report jobs as FTE, but it further defined FTEs as the total number of hours worked and funded by Recovery Act dollars within the reporting quarter and provided guidance on applying the new formula. According to Task Force officials, CDE did not instruct LEAs to recalculate job estimates using the new OMB guidance. CDE plans to have LEAs revise job estimates reported during the second reporting period when CDE requests data for the third report, which will be due on March 15, 2010, to CDE. Until that time, the data available to the public for education-related jobs in California are not comparable to that reported by other states.²⁷ Additionally, although CDE's uncorrected job estimates for the second reporting period remain on the Recovery.gov Web site, the Task Force announced that it will not include CDE's job estimates in its reports.

In addition to not following OMB's updated guidance on calculating FTEs, we also found that partly due to unclear guidance from CDE, LEAs we reviewed had collected and reported job information from vendors inconsistently.²⁸ We met with seven LEAs—including LA Unified, the largest LEA in California—to gain an understanding of their processes for obtaining information necessary to meet Recovery Act reporting requirements. LEAs told us that they received reporting guidance from CDE, including calculating teacher and administrative jobs, but did not receive clear guidance on how to collect and report vendor jobs funded by the Recovery Act. As a result, LEAs we reviewed had varying jobs data collection processes. For example, one LEA that did not report vendor jobs for the second reporting period told us that, for future quarters, they plan to survey vendors to estimate the range of jobs created or retained (e.g., 1-5, 6-10, 11-15 jobs). Two other LEAs told us they did not contact

²⁷In addition to CDE, our national review of second round reporting indicates that some recipients, particularly in the education area, did not follow the new calculation and do not expect to do so until the third round of reporting. We previously cautioned against aggregation of first round FTE data, and it holds for this round of reporting as well.

²⁸A vendor is defined as a dealer, distributor, merchant, or other seller providing goods or services required for the conduct of a federal program.

vendors to collect data on jobs created or retained but reported the number of vendors with a Recovery Act contract. For instance, if the LEA had four contracts using Recovery Act funds during the reporting period, the LEA reported four vendor jobs. Officials from LEAs also reported confusion regarding CDE's guidance to identify vendors—by reporting their name and zip code or Dun and Bradstreet Universal Numbering System number—that received payments of \$25,000 or more in the quarter.²⁹ 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.³⁰ According to an official from one of these LEAs, the number of vendor jobs it reported for the second quarter would increase from 12 to at least 77 if it collected job estimates from all of its vendors with Recovery Act contracts. As a result, some vendor jobs funded by the Recovery Act were not reported.

On February 23, 2010, CDE issued updated guidance to LEAs, and other subrecipients, to assist them with the third Recovery Act reporting period. However, this guidance neither provided LEAs additional information on collecting and reporting vendor jobs, nor did it clarify that the vendor identification guidance was not applicable to the Recovery Act's jobs reporting requirements. As the prime recipient, CDE is responsible for ensuring Recovery Act requirements are met, including reporting vendor jobs funded by the Recovery Act. We plan to continue to follow these reporting issues as part of our ongoing bimonthly work.

²⁹ Recipient reports are to include payments to subrecipients and vendors. Subrecipients are required to report the name and zip code of the vendor's headquarters or Dun and Bradstreet Universal Numbering System number for payments to vendors in excess of \$25,000.

³⁰ Under OMB guidance, prime recipients are required to generate estimates of job impact by directly collecting specific data from sub-recipients and vendors on jobs resulting from a sub-award. To the maximum extent practicable, prime recipients should collect information from all sub-recipients and vendors in order to generate the most comprehensive and complete job impact numbers available. However, in limited circumstances, the prime recipient can employ an approved statistical methodology to generate estimates of job impact, thereby collecting data from a smaller subset of sub-recipients and vendors in order to extrapolate an estimate of job impacts to all applicable sub-recipients and vendors. A statistical methodology should only be employed in those cases where a comprehensive collection of jobs data from all sub-recipients and vendors is overly costly or burdensome and thus disrupts the prime recipients' ability to effectively implement the underlying mission of the program. Job estimates regarding vendors are to be limited to direct job impacts for the vendor and not include "indirect" or "induced" jobs.

Task Force officials stated that while OMB's revised guidance on calculating FTEs for the second reporting period was easier to implement compared with the first period, other data issues made it difficult to report timely, accurate, and complete information. For example, the Task Force received error messages in FederalReporting.gov when the congressional district where the Recovery Act-funded project was located did not match the recipient address. The Task Force reported receiving more than 1,500 error reports for data it submitted to FederalReporting.gov related to congressional districts and zip codes, even though California's CAAT system had mechanisms in place to try to prevent the entry of false congressional districts. In order to expedite these corrections, Task Force officials told us that they decided to change their data to what FederalReporting.gov would accept, rather than what they knew was correct in some instances. For example, if they knew a recipient had moved and had a new zip code, but FederalReporting.gov did not have the updated zip code for the recipient's new address, the Task Force used the old zip code to get the report to upload successfully to FederalReporting.gov. Issues with zip codes also surfaced for local agencies that reported directly to FederalReporting.gov. For example, officials from the Los Angeles County Metropolitan Transportation Authority said they received an error message for an incorrect congressional district, because they initially used the congressional district in which the project was located as opposed to the agency's headquarters office. Officials from the transportation authority interpreted OMB's guidance as the congressional district in which the project/activity was being performed, but they later received clarification that the congressional district should be consistent with the recipient's address.

Mr. Chairman and Madame Chairwoman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Committee or Subcommittee might have.

GAO Contact and Staff Acknowledgments

For further information regarding this testimony, please contact Linda Calbom at (206) 287-4809 or calboml@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this statement include Guillermo Gonzalez, Chad Gorman, Richard Griswold, Susan Lawless, Gail Luna, Heather MacLeod, Emmy Rhine, Eddie Uyekawa, and Lacy Vong.

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Chairman TOWNS. Thank you very much, Ms. Calbom.
Mr. Schultz.

STATEMENT OF HERB K. SCHULTZ

Mr. SCHULTZ. Good afternoon, Chairman Towns, Chairwoman Watson and other members of the committee. I would like to thank you for inviting me here today to discuss the American Recovery and Reinvestment Act.

My name is Herb Schultz, and I am senior advisory to the Governor and director of the California Recovery Task Force, and I appreciate that the chairman acknowledged that when we met 28 years ago, we both had hair. So, it is good to see you. [Laughter.]

After this historic bill was signed, the Governor acted very swiftly creating the California Recovery Task Force. It is made up of the best and brightest minds from our State who represent over 30 departments and agencies who work in coordination with key external stakeholders across the State to get funds out quickly and efficiently to Californians.

As you saw from the first panel, the Recovery Act requires extraordinary coordination at all levels of government, and the task force works in partnership with each level, Federal, State, and local, to ensure that the benefits of the dozens of programs get to organizations and individuals.

We are working every day and many nights to provide unprecedented levels of transparency and ultimately get California's economy back on track.

The Governor announced only a couple of weeks ago that California has funded approximately 150,000 jobs from our stimulus efforts. The task force's goal was to provide unparalleled oversight and implementation of the \$85 billion expected in cash and tax benefits, the largest of any State.

The task force immediately jumped into action preparing the State for the largest infusion of Federal funds that the State has experienced to date. Through the end of 2009, the end of the second quarter of reporting, \$26.6 billion has been awarded to State entities with \$13.8 billion, roughly half, being spent to extend safety nets to millions of Californians. Very important, such as through Medi-Cal, food stamps, and unemployment insurance.

The remaining \$12.8 billion has been committed to contracts, grants and loans, of which \$6.3 billion has already been spent and is out working on the street creating jobs, job training programs, and other essential services.

With the significant funding involved, Governor Schwarzenegger quickly appointed the first in the Nation Recovery Act Inspector General, and we have mentioned my colleague, Laura Chick, to my left.

The task force is working in partnership with Laura, along with the Bureau of State Audits, the State Controller's Office, the Federal Recovery Accountability and Transparency Board, OMB, and the Government Accountability Office to make sure that California's stimulus funding is spent the right way.

Since the beginning, the task force members and staff have also taken action and met with numerous stakeholders in all communities to educate them and inform them of opportunity.

To date, more than 45,000 people representing local government, non-profits, energy groups, education transit officials, health care stakeholders, large and small business, and local government officials have met with the task force.

By coordinating efforts to put forth the most competitive applications possible, California has experienced a great deal of success in taking advantage of various discretionary opportunities.

I know we have had some discussion here about high speed rail, but the State of California has also obligated its entire 100 percent, \$2.5 billion plus, in highway programs.

We received nearly \$70 million for health information technology and \$30 million for health care jobs and job training. We put 40,000 young people to work in summer jobs, delivered more than 650,000 warm meals to seniors, and we kept in force 650 police officers, providing important public safety for our community.

As Congresswoman Chu mentioned, more than 11,000 low-income Californians have been hired by employers who were subsidized by the Recovery Act.

But these big picture numbers fail to tell the story—any of the individual stories—of how the Recovery Act has impacted real Californians, like “Bart.”

Bart was laid off from his construction job and without a job for over 6 months. With little savings left and months away from losing his home, Bart went from worrying about how to feed his family to being hired.

He is now working to extend State Route 905, funded in part by Recovery Act dollars. We thank the President and the Congress for that. This is a real person, and the Recovery Act is making a real difference.

Yes, there have been growing pains along the way. Several departments greatly expanded existing programs and also developed new ones. In addition, many Federal guidelines have been changing throughout the life of the program.

The weatherization program, for example, faced significant challenges early on, but has successfully reorganized, added key resources, streamlined contract approvals, and improved internal controls, many that were identified by our own readiness reviews and by audits undertaken by the Bureau of State Audits and the Inspector General.

Today, 94 percent of the unions are under contract, and we are working hard to get the remaining areas contracted. I know that the committee is very interested in that.

To date, after the slow start, the department is on track to do approximately 4,000 homes in the first quarter, and to make the goals by September 30th and throughout the life of the program.

The Recovery Act also allocated a significant share of funding toward energy projects. The task force recognized early on, and it has been mentioned, that considerable changes would need to be made in order for the Recovery Act funding in energy to be successfully spent.

To date, I am happy to provide you that almost 70 percent of the energy program funds are now committed.

While the State energy program existed prior to the Recovery Act, Federal funding grew from \$3 million to \$226 million. The

California Energy Commission also made certain, per State law, required public input when determining program guidelines for the awarding of grants. That ensured that the grants were distributed transparently, accountably and equitably.

In conclusion, the Recovery Act has provided individuals, businesses, non-profits, local governments, and other key constituencies across the State important financial benefits, opportunities, jobs, job training, and vital safety net benefits.

The task force will remain ever vigilant to ensure spending is done efficiently and quickly without sacrificing accountability and transparency.

Thank you very much for inviting me to testify, and I will be happy to answer any questions that you may have.

[The prepared statement of Mr. Schultz follows:]

Testimony of Herb K. Schultz

Senior Advisor to California Governor Arnold Schwarzenegger
and Director of California Recovery Task Force

3/5/2009

House Committee on Oversight and Government Reform Committee and Subcommittee on
Government Management, Organization and Procurement Joint Los Angeles Field Hearing



Role of the Recovery Task Force and Oversight and Implementation Structure

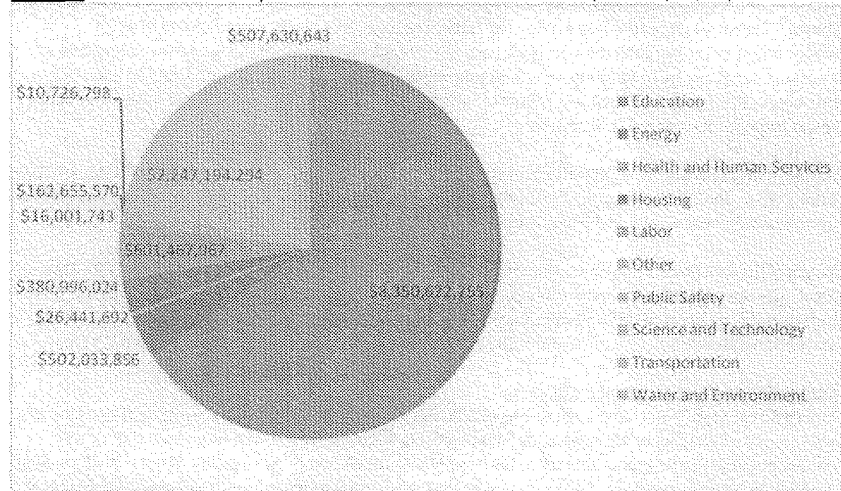
Role of the Task Force

The American Recovery and Reinvestment Act (Recovery Act) was signed by President Obama on February 17, 2009. At the Governor's direction, the administration began planning for an economic stimulus package. The Governor immediately committed to tapping into every possible source of funding to benefit California. For example, the February budget from last year included provisions that were contingent on the General Fund impact of the Recovery Act.

With an estimated \$85 billion in federal economic stimulus funds expected to come to California over two years, the Governor created the California Recovery Task Force (Task Force) via Executive Order on March 26, 2009. Membership includes senior level representatives from the Health and Human Services Agency, the Department of Transportation (Caltrans), the Department of Housing and Community Development, the Natural Resources Agency, the Office of the Secretary of Education, the California Environmental Protection Agency and the Labor and Workforce Development Agency. Also participating are representatives from the Department of Food and Agriculture, California Emergency Management Agency, the Office of the Chief Information Officer, Office of the Small Business Advocate, the Department of General Services and the California Energy Commission. The goal of the group was to track the dollars coming in, seize as many opportunities as possible, use the funding effectively and ensure that spending was done with the highest level of transparency and accountability ever associated with government spending. In addition, the Task Force has a core staff to conduct the day-to-day oversight operations.

The Task Force is charged with tracking the Recovery Act funding coming into the state (refer to Graph I for breakdown of state department and agency funding); working with President Barack Obama's administration; helping cities, counties, non-profits and others access the available funding; ensuring that the funding funneled through the state is spent efficiently and effectively; and maintaining a Web site that is frequently and thoroughly updated for Californians to be able to track the stimulus dollars. The Web site, www.recovery.ca.gov, gives all Californians a breakdown, by issue area, of the funding California has and is estimated to receive from the Recovery Act.

The Task Force meets twice weekly and this has led to several partnerships amongst the state agencies and departments. It has helped facilitate efforts like the clean energy jobs training program, which uses Recovery Act funds from the Employment Development Department and California Energy Commission and non-recovery act funds as well as local matches to create a \$48 million program to train workers in energy efficiency, renewable energy and clean transportation. It has also helped us in efforts to talk about implementation issues and best practices.

Graph I: Amount of Recovery Act Funds Awarded to State Entities (As of 12/31/09)*

Graphic produced by Recovery Task Force Staff

* These figures represent Recovery Act funds that have been federally announced. They may not yet be available for expenditure.

California's Recovery Act Oversight and Implementation Structure

Agencies and Departments

California state government entities—34 different departments—are eligible to participate in approximately 60 federal Recovery Act programs. Some of these programs are exclusive to state government, while others are awarded on a competitive basis to the state and non-state government entities. As of December 31, 2009, these 34 different departments and state entities have been awarded \$26.7 billion, of which \$13.8 billion has been spent to extend the safety net to millions of Californians for such entitlement programs as Medi-Cal, unemployment compensation and food stamps. The remaining \$12.8 billion is reserved for federal contracts, grants and loans, of which \$6.2 billion has already been spent by state departments to create jobs and provide other benefits to Californians. Ultimately, state government entities will receive an estimated \$55 billion from the Recovery Act—the bulk of that further distributed to local governments, school districts, private organizations and individuals.

Governor Schwarzenegger committed that California would achieve the maximum benefit possible from the Recovery Act. He directed state departments and agencies to immediately gear up to prepare the best applications for Recovery Act funds to ensure the most funds possible for California. This has led to a number of coordinated efforts from state government entities ranging from swift regulatory and statutory changes, to using other state, local and federal resources to leverage additional Recovery Act dollars and assisting non-profit and local government entities on joint applications.

Inspector General

The Governor additionally appointed the first-in-the-nation state Recovery Act Inspector General (IG) through Executive Order S-04-09 on April 3, 2009. The Executive Order identifies the IG as an independent entity with the mission to protect the integrity and accountability of the expenditure of Recovery Act funds by preventing and detecting waste, fraud and abuse. The IG is tasked with presenting independent and object reports to the Governor, the Legislature and the federal agencies responsible for Recovery Act oversight.

Rather than duplicate the audit efforts of the state's other auditing entities, such as the Bureau of State Audits (BSA) and the State Controller's Office (SCO), the IG focuses on preventive measures and follow-up to ensure departments and other recipients are taking appropriate and timely corrective actions.

To date, the IG's office has also coordinated fraud prevention and detection training events 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 seven events throughout the state. The event was also available through a Webinar.

Office of State Audits and Evaluations

The Office of State Audits and Evaluations (OSAE), an arm of the California Department of Finance, is also involved in Recovery Act oversight. The California Recovery Task Force requested that OSAE conduct oversight and accountability readiness reviews for Recovery Act funding. A total of 29 reviews were done for state agencies, departments, boards and commissions receiving Recovery Act funds. The purpose of these reviews was to identify early on potential issues in department oversight and internal controls that could lead to increased programmatic or fiscal risks in expending Recovery Act funds.

OSAE examined each entity's readiness in the general areas of oversight and fraud prevention, grants management and accountability, reporting requirements and transparency. Guidelines released by the White House Office of Management and Budget as well as the National Procurement Fraud Task Force best practices guidance were both used to determine compliance standards. To increase transparency and accountability, the readiness reviews were published on the Task Force's Web site. This allowed other auditing agencies to follow up on any noted weaknesses.

The California Recovery Task Force also asked OSAE to perform limited reviews of data reported in the October reporting period. These limited reviews noted some issues in data quality. The Task Force published a Recovery Act Bulletin (RAB) to communicate the noted data quality issues as well as best practices that should be implemented by the state agencies and departments.

Bureau of State Audits

The Bureau of State Audits (BSA) is statutorily responsible for annually conducting California's statewide Single Audit. The Single Audit is a combination of the independent audit of the state's basic financial statements and the independent audit of federal programs administered by various state agencies and departments. The BSA is also responsible for conducting the statewide audit of Recovery Act funding. The BSA is focusing on areas where there are known internal control and compliance weaknesses based on previous Single Audit work and on state agencies and departments that have not previously administered large federal programs. In addition, in April 2009, the BSA identified the state's implementation of the Recovery Act as a high-risk issue area. In June 2009, the BSA followed up on the initial risk assessment by reviewing four state departments' ability to administer Recovery Act funding.

This review noted that while progress had been made, none of the departments were fully prepared. Recently, the BSA has issued three interim audits of state departments, which were awarded Recovery Act funds.

State Controller's Office

The State Controller's Office (SCO) is primarily responsible for the sound fiscal control over both receipts and disbursements of public funds and to report periodically on the financial operations and condition of both state and local government. To that end, the SCO performs financial audits of federal and state funds in connection with SCO's central disbursing function—claim audits. The SCO is the primary state agency that conducts audits of local entities as needed in connection with locals' receipt of funds from the state.

The SCO has a significant role in the state's overall accountability responsibilities because a substantial portion of the Recovery Act funding received by the state will be awarded to sub-recipients who are primarily local governments.

Working in Coordination to Ensure Transparent Spending

While the activities and approaches of the different audit and oversight organizations may be similar in nature, each entity has a distinct responsibility and area of expertise, as shown in Chart I. In addition, each of the entities is committed to coordinating their efforts to minimize duplication and to share information so that, as a whole, the state can expend Recovery Act funds appropriately, minimize the incidence of fraud, waste and abuse and identify or implement appropriate corrective actions to address findings in a responsible and expeditious manner.

Chart 1: High-Level Overview of Accountability, Oversight and Implementation Roles

	Prevention	Readiness/ Preparedness	Risk Assessment	Audits	Technical Assistance to Departments	Investigate Fraud, Waste, and Abuse
Recovery Act Departments/ Agencies	Document existing internal controls and determine approach to fund allocation			Support audit activities - follow up on audit findings		As part of compliance reviews, investigate potential fraud
Task Force	Provide education, training and guidance to state recipients on appropriate use of funds	Monitor department activities and support allocation of funds		Data quality checks and reviews of IS12 reports for accuracy	Provide technical assistance on reporting and appropriate use of funds	
Office of State Audits and Evaluations		Readiness reviews focused on internal controls		Conduct program and compliance audits or reviews as requested by the Task Force or directed by the IG	Provide technical assistance to correct audit findings and strengthen internal controls	
Inspector General	Coordinate training to state and local governments on oversight and prevention of fraud, waste, and abuse	Interview each Recovery Act recipient department to ascertain their plans for ensuring oversight of expenditures and identify risks based on prior audits, reviews, and program characteristics		Limited scope, reviews and audit work focused on evaluating and pursuing indicators of fraud, waste and abuse	Analyze deficiencies and provide a framework to prevent similar problems in the future	Investigate complaints directed to the Office
Bureau of State Audits	Conduct daily reviews and testing of internal controls		Identify risks based on prior Single Audit findings, ARRA findings, and federal guidance	Complete Single Audit for state departments		Investigate or refer whistle blower complaints
State Controller's Office	Audit state agency Recovery Act claims for compliance and to identify high risk		Identify risks based on prior local government audit findings	Complete and issue local government single audit guidance, conduct field audits, of high risk local and state entities		Investigate local government and potential fraud identified during state agency claim audits

Providing Opportunities for Californians

The Task Force has initiated or participated in scores of outreach with stakeholder meetings with governmental, non-profit and small business groups to explain Recovery Act opportunities and to educate them. Over 45,000 people have attended these meetings. Meetings with organizations representing minority, disabled and small business owners comprise roughly half of this attendance number. In addition, the Task Force has been visible and active on a national level, participating with various national associations, such as the National Governor's Association, the National Association of State Budget Officers and interacting with federal officials.

Small and Disabled Veteran Businesses

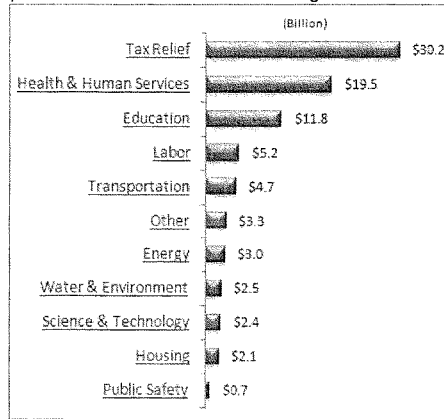
The Task Force recognizes the participation of small businesses and Disabled Veterans Business Enterprises (DVBEs) as both an essential and valuable component to the successful implementation of economic stimulus dollars. Small and DVBE businesses, which comprise 98 percent of all California firms and employ over half of the state's residents, will be the driving force behind the state's economic recovery. It is essential that these firms receive an opportunity to compete for these job-creating contracts which requires timely and accurate information about Recovery Act contracting opportunities in California. To that end, coordination with the Department of General Services, Governor's Office, Business, Transportation and Housing Agency, and Air Resources Board has resulted in an extensive outreach effort and has provided web-based information to potential small business and DVBE bidders.

Additionally, the Task Force is working closely with the Governor's Small Business Advocate to identify ways to target small business in external activities such as workshops, speeches and meetings. Already, the Task Force has added a new tab to our Web site (<http://recovery.ca.gov/HTML/HowDoI/smallbusiness.shtml>), designed to provide small business owners the resources and information necessary to participate fully in the recovery effort. Additionally, a resource guide and brochure are available noting and distilling down the resources available to small businesses and DVBE on how to locate, apply and compete for federal, state and local recovery projects.

California's Share of Recovery Act Funding

Of the \$787 billion estimated total, approximately \$499 billion will be available nationally for programs administered by the federal government, state governments, local governments and private organizations. The remaining \$288 billion is for direct tax relief to individuals and business. California's initial estimated share of the total Recovery Act funds was over \$85 billion, representing more than 10 percent of the funds available nationally. Initial estimates indicate approximately \$55 billion will be provided to California state and local governments, non-profits, local education agencies and private companies through spending programs and the remaining \$30 billion to individuals and businesses in the form of direct tax relief.

Graph II: \$85 Billion in Benefit to California
(Estimated benefit to California through the life of the Recovery Act)



Graphic created by Recovery Task Force Staff

For perspective on the magnitude estimated for California, the \$55 billion that will be awarded to state and local governments is equivalent to nearly two-thirds of the state General Fund budget. California's share of the Recovery Act funding is also larger than the annual General Fund budgets of all but two states (Texas and New York). (Refer to pie chart in Appendix I)

Chart II provides a breakdown of the total amounts of Recovery Act funding expected to come to California over the life of the Recovery Act. The Employment Development Department is expected to receive the most funding due largely to their dispersal of funds for training and employment services under the Workforce Investment Act and Wagner-Peyser Act that will be administered locally through One-Stop Career Centers and various local and community organizations.

Existing Programs

Most of the stimulus money coming to California has flowed through channels that already exist.

For example, over \$13.8 billion in funds received as of December 31, 2009 have gone toward Health and Human Services programs that are providing a much needed safety net for California's citizens. Money flowing to preexisting programs like Medi-Cal, several food and nutrition assistance programs (e.g. SNAP), immunization clinics, community service grants, social security and vocational rehabilitation are keeping Californian's healthy and providing services that might not otherwise be there.

It is important to note that the increased federal funding under the Recovery Act will not change the amount of funding paid for program services. Rather, the Recovery Act has increased the federal share of funding for the Medi-Cal program, resulting in General Fund savings and mitigating programmatic cuts that would have otherwise been required due to California's budget crisis.

Also, beginning in March 2009, the California Labor and Workforce Development Agency distributed \$415 million in Recovery Act funds to 49 Workforce Investment Boards throughout the state. This \$415

	\$13,298,809 – STOP (Services Training Officers Prosecutors) Violence Against Women Formula Grant Program
	\$8,110,005 – State Victim Compensation Formula Grant Program
Science and Technology: (only two awards)	\$10,069,863 – Childhood Immunization Program
	\$656,935 – Childhood Immunization Program
Transportation	\$192,357,000 – Highway Infrastructure Investment
	\$189,900,000 – Highway Infrastructure Investment
	\$128,116,032 – Highway Infrastructure Investment
Water and Environment:	\$280,285,800 – ARRA State Revolving Fund
	\$159,008,000 – ARRA Capitalization Grants for Drinking Water State Revolving Funds
	\$15,577,984 – ARRA Leaking Underground Storage Tank Trust Fund Program

Created by Task Force Staff

Infrastructure

California currently is home to two of the largest Recovery Act-funded transportation projects in the nation:

- **Caldecott Tunnel 4th Bore Project:** Funded with \$197.5 million in federal Recovery Act dollars, this project represents the single largest Recovery Act-funded transportation project in the nation and will reduce congestion on State Route 24 by building a fourth tunnel bore as part of the Caldecott Tunnel, linking Orinda to Oakland.
- **Interstate 405 High Occupancy Vehicle (HOV) Lane Project:** A 10-mile northbound HOV lane will be constructed on the San Diego Freeway (I-405) from the Santa Monica Freeway (I-10) to the Ventura Freeway (U.S. 101). This is the second largest Recovery Act-funded transportation project in the nation. Additional improvements include: realigning existing on- and off- ramps, removing, replacing and constructing new bridge and ramp structures, building approximately 18 miles of retaining and sound walls, and performing road improvements on adjacent city streets. When completed, the lane will significantly improve traffic flow for northbound commuters and the project will complete a continuous 72-mile HOV lane, making it the longest HOV lane in the country.

Job Training and Rehabilitation

Governor Schwarzenegger has fought diligently to secure funds to train those who seek to develop skills for the 21st century economy across a broad cross-section of the state with training in the skills they

need to move from the unemployment rolls to the payrolls of a wide variety of industries throughout the state.

Opportunities arising because of the Recovery Act include:

- **\$10.7 Million Investment In Job Training:** Thirteen agencies throughout California will receive a combined \$10.7 million to prepare more than 2,100 people for jobs that employers have designated as in-demand occupations, including network administrators, systems engineers, alternative fuel mechanics, paramedics, pharmacy assistants, home health aides, warehouse specialists and logistics clerks.
- **Clean Energy Workforce Training Program:** In August, Governor Schwarzenegger launched a \$75 million investment establishing the nation's largest state-sponsored green jobs training program. The program leverages federal Recovery Act funds, public-private partnerships and state and local funding, to train more than 20,000 new or re-skilled clean energy workers to build a workforce capable of performing the jobs necessary to meet the state's goals of renewable energy development, climate change reduction, clean transportation and green building construction for a new green economy.
- **Bolstered Services at Local Workforce Services Offices and One Stop Centers:** To assist workers displaced from their jobs, \$415 million in Recovery Act funds will be distributed by the Employment Development Department to 49 local Workforce Investment Boards to help bolster services at the local Workforce Services Offices and One Stop Career Centers, serve workers displaced from their jobs and work to address workforce development priorities. This \$415 million in additional Recovery Act funds nearly doubles the amount of Workforce Investment Act funds the federal government has allocated to California in the current fiscal year.

Energy

The Task Force is helping to implement extraordinary funding for increasing energy efficiency projects for both the public and private sectors. In some cases, the Task Force has assisted in creating new state programs that had to be built from the ground up:

- **Loan for California Solar Manufacturing Plan:** The Governor helped to secure a \$535 million loan guarantee for Fremont company Solyndra Inc, which manufactures cylindrical solar photovoltaic panels. The federal funding will finance construction of the first phase of Solyndra's new manufacturing facility - which the company estimates will create 3,000 construction jobs, eventually employ approximately 1,000 direct and indirect workers and provide enough clean renewable energy to power 24,000 homes a year through the first phase of annual solar production.
- **\$175 Million for Smart Grid Projects:** The nearly \$175 million award is part of a larger \$620 million pot of Recovery Act funds for Smart Grid projects around the country. The California projects, ranging from wind, battery and underground compressed energy storage systems to regional Smart Grid demonstrations, are leveraging the Recovery Act funds with more than \$404 million in private sector funds.
- **\$226.1 Million for State Energy Program:** The State Energy Program funding will be available for rebates to consumers for home energy audits or other energy saving improvements; development of renewable energy projects for clean electricity generation and alternative fuels; promotion of Energy Star products; efficiency upgrades for state and local government buildings; and other innovative state efforts to help save family money on their energy bills.

California was the first state in the nation to submit an application for Recovery Act State Energy Program funding.

- **\$110 Million for Energy Efficiency and Solar Projects:** State Energy Program Efficiency Building Retrofit and Municipal Financing Programs will provide a combined \$110 million to California local jurisdictions, non-profits and private organizations. This will fund an estimated 1,100 jobs and will help to save money on consumer and commercial utility bills.

Education

California is receiving Recovery Act funds to bolster our state's schools and universities so California's future workforce can receive the best education to succeed in and strengthen our state and nation's economy. These funds will protect education funding and important preparatory programs as well as help prevent the layoffs of educators and other school employees. Successes include:

- **Race To The Top Application Submitted For Up To \$1 Billion in Federal Education Funds:** The Governor signed legislation making California eligible to submit a competitive application for Race To The Top and which details the statewide plan – strongly supported by over 800 local education agencies representing more than 3.6 million students – to implement the strategies and reforms necessary to fulfill Race to the Top requirements.
- **Governor Submits State's Application for \$490 Million for Schools & Universities:** Under Governor Schwarzenegger's leadership, California was the first state in the nation to be federally approved for State Fiscal Stabilization Funds (SFSF). SFSF is a *one-time* allocation of \$53.6 billion made available to states under the Recovery Act intended to assist in stabilizing state and local government budgets in order to minimize and avoid reductions in education and other essential public services. Through the Governor's leadership, California received over \$3.1 billion in the spring of 2009, as well as an additional grant of \$1.3 billion in the fall of 2009. These funding awards make up 90 percent of the total amount available under SFSF for both K-12 and higher education.
- **Title I Schools and Special Education Local Plan Areas:** Additional Title 1 funds will further help schools with high concentrations of students from families that live in poverty improve teaching and learning for students most at risk of failing to meet state academic achievement standards. California has been awarded \$1.1 billion in these funds.

Water and Environment

California has long been a world leader in environmental issues and often sets the stage for future developments in the sector. The state's growing population, combined with limited investment in water infrastructure, has placed additional strains on systems that the Recovery Act aims to alleviate:

- **Clean Water State Revolving Fund:** Under the stimulus program the State Water Board is handling \$270.5 million in addition to more than \$200 million normally loaned by the Clean Water State Revolving Fund (SRF) each year. These funds are going towards a variety of projects assisting local communities in preventing and cleaning up water pollution and protecting public health and the environment. The Clean Water State Revolving Fund concentrates on wastewater (sewer) projects and treatment plants.
- **Addressing California's Long-Term Water Supply Challenges and Drought Conditions:** California is putting to work \$260 million to help address its long-term water supply challenges and devastating drought conditions. This includes:

- \$40 million for immediate emergency drought relief in the West, specifically in California. These investments will allow for the installation of groundwater wells to boost water supplies to agricultural and urban contractors, the facilitation of the delivery of Federal water to Reclamation contractors through water transfers and exchanges, and the installation of rock barriers in the Sacramento Delta to meet water quality standards during low flows
- \$109.8 million to build a screened pumping plant at the Red Bluff Diversion Dam to protect fish populations while delivering water to agricultural users irrigating approximately 150,000 acres
- **National Clean Diesel Funding Assistance Program:** California was awarded \$25,403,971 million to replace, repower and retrofit engines in buses, heavy-duty trucks, locomotives, agricultural vehicles, construction vehicles, and cargo handling equipment in metropolitan Los Angeles, the Ports of Long Beach and Los Angeles, San Diego, the San Joaquin Valley, and the Bay Area. These clean diesel projects will create jobs while protecting California's air quality.

Public Safety

The Community Oriented Policing Services (COPS) Hiring Recovery Program (CHRP) provides \$1 billion in national grants to support 100 percent of the cost for approved entry-level salaries and benefits for newly-hired, full-time sworn officer positions (including filling existing unfunded vacancies) or for rehired officers who have been laid off (or are scheduled to be laid off) as a result of local budget cuts. Funds will support these positions for three years and will create and retain law enforcement jobs.

Over \$211 million has been awarded to organizations in California, more than 21 percent of the funds available nationally. Overall, nearly 650 police officers have been hired or rehired as a result of this Recovery Act funding.

Individual Stories

The "big picture" numbers fail to tell many of the individual stories of how the Recovery Act has impacted real Californians. The following are real people and the Recovery Act is making a real difference.

Debbie

The Department of Rehabilitation (DOR) received an astounding \$61.8 million in federal stimulus funds for its programs, which includes \$56.5 million for vocational rehabilitation (VR), \$1.6 million for independent living, and \$3.7 million for older blind programs. The VR Recovery Act funds constitute a large one-time infusion of VR state grant funding that offers the opportunity to make short-term program improvements that provide long-term benefits. This unprecedented investment will provide our state vocational rehabilitation-related programs with critically needed funds and the opportunities to continue efforts in providing services and advocacy resulting in employment, independent living, and equality for people with disabilities.

Thanks to funds from the Recovery, Debbie, a 27 year-old with a high school equivalency education, now has a job. As a result of the state's On-the-Job Training program, Debbie is working as a Ceramist for a dental lab in Southern California

The Vocational Rehabilitation program serves Californians with disabilities and, with the major infusion of funds from the American Recovery and Reinvestment Act, is able to expand opportunities in this tough job market. Employment training and career development has provided increased opportunities

for on-the-job training to facilitate direct job placement opportunities with minimal costs to the business/employer, and self-employment training to assist with the transition into self-employment.

For Debbie, it meant earning \$9 per hour during the 13 week program. This program was vital and without it, Debbie would likely have been in training for over a year which would have increased costs for transportation assistance as well as tools, books and supplies and training fees. Instead, once she completes her training, she will have a competitive advantage—actual job experience.

To date, there are nearly 200 new On-the-Job Training placements throughout the State of California, making it the largest vocational rehabilitation program in the country.

Carol

The California Department of Housing and Community Development has helped thousands of Californians facing foreclosure, provided new resources to increase housing supply and helped prevent homelessness. The Homelessness Prevention and Rapid Re-Housing Program (HPRP) was awarded \$42.7 million in Recovery Act funding, directed at 31 agencies and local governments in California. The funding provides short and medium-term rental assistance to individuals and families who are currently in housing but at risk of becoming homeless, and to individuals and families who are homeless. This HPRP funding allocation is the largest state allocation in the U.S. to date. In total, entities in California have received \$189.1 million in HPRP funds.

The goal of these Recovery funds is to provide financial assistance and other services intended to help people and families find stable housing. The Homelessness Prevention and Rapid Re-Housing Program aids in housing relocation and stabilization services including; housing search, mediation or outreach to property owners, credit repair, security or utility deposits, utility payments, rental assistance, moving cost assistance and other homelessness prevention or rapid re-housing activities.

Carol and her two children were the first family in Alameda County to receive assistance from this program. Earlier this year, Carol along with her children fled their home to escape domestic abuse. Although Carol worked two jobs, her income was not enough to cover the nightly cost of a hotel room and provide food for her and her two children. When the money ran out, Carol and her family were forced to move into her truck.

Fortunately, Recovery Act funds provided to the Priority Home Program, the family was able to move into a two bedroom apartment, blocks from her children's schools. This move came just in time for the family to celebrate Thanksgiving, in their own home. The program paid her deposit and will provide her a small rental subsidy until child support starts in February. The program has also helped her to access benefits, such as food assistance, until her income increases next year. With a total of four months support, Carol and her children will be back on their feet and able to afford their two bedroom town home apartment.

Bart

Caltrans projects have created jobs and opportunities for Californians up and down the state. Many of the Recovery Act projects would have otherwise been shelved for years but are breaking ground thanks to the Recovery Act. California has the top two projects in the nation with the largest amount of Recovery Act funding thus far. Cities and counties will utilize over \$1 billion of Recovery Act funds for more than 600 projects to construct new roads, repave existing roads, rehabilitate existing

bridges to ensure their safe operation and construct pedestrian and bicycle improvements throughout the state.

In May of 2009 \$74.3 million in Recovery Act funding enabled construction to begin on Phase 1B of the State Route 905 project in San Diego County. The project will ultimately cost more than \$620 million and create eight miles of a much-needed six-lane freeway along the U.S. - Mexico border. The objective of the project is to improve the annual trade between California and Baja California, which totals more than \$35 billion. The road is also expected to ease the access to border ports and improve traffic flow, which is expected to double within the next decade.

Mr. Bart Pensinger is one of the faces you will see if you visit the project. Bart had previously been laid off from his construction job in January 2009 and was out of work for a long six months. Having exhausted their savings, his family was two months away from possibly losing their house. But thanks to this project, Bart, his wife and their two children can now rest easier, knowing their father is bringing home a steady paycheck. Bart is hard at work as project manager for the Sukut Construction Company directing workers to pave and extend the road to this important border artery.

What Money Remains

Of the \$166 billion in Recovery Act funds outstanding by the federal government, almost every dollar has already been spoken for, even if it is not yet technically “obligated.” For example, of the project related funds, many, such as High Speed Rail and smart grid funds, have already been awarded to recipients but have yet to be obligated. And approximately \$20 billion in the total unobligated funding is connected to Health Information Technology (Health IT) investments—some of which will be awarded later this year and the rest spent as incentive payments starting in 2011 for providers who adopt Health IT. Additionally, many of the “payment” types of funds, such as Medicaid, are being allocated on a quarterly basis, so they’re not “obligated” until the start of each quarter.

To date, \$26.7 billion has been awarded to California’s state and local governments, non-profits, local education agencies and private companies through spending programs. With initial estimates of \$55 billion in total coming to California through the life of the Recovery Act, this leaves about \$30 billion in additional cash benefits yet to come. This would include such programs as broadband and health information technology grants.

Program Challenges

In its role as both providing oversight to departments and working together to implement the Recovery Act, the Task Force continues to work each day to address some of the growing pains associated with the largest disbursement of federal funding in the state’s history. Several programs grew exponentially and the Task Force worked with agencies and departments to allocate resources accordingly, and continues to provide support and coordination between agencies and departments to ensure the timely distribution of Recovery Act funding. Two departments that were immediately identified as slow to adapt to the increased funding, thereby impacting programs, are now well on their way to meeting their targets and obligating Recovery Act funding.

Weatherization

As a result of the Task Force's own internal review and a report by the Bureau of State Audits, the Community Services Department (CSD), working with the Task Force, Governor's Office and Health and Human Services Agency, has successfully reorganized and added key resources, streamlined contract approvals and improved internal controls, which have resulted in ramped up production. All are confident that program goals will be reached in a timely manner and not one dollar of Recovery Act money will go unused for this program. To date, after the slow start, the department has significantly ramped up weatherization and completed 849 units with an additional 1,047 in the pipeline and approximately 2,260 units scheduled to begin soon.

The intention of the program is to support efforts to increase energy efficiency of dwellings owned or occupied by low-income persons, reduce their total residential expenditures and improve their health and safety. Of the \$5 billion appropriated for the Weatherization Program, the Department of Energy awarded \$185 million to CSD. This award represented a significant increase from prior allocations which had remained steady for the past five years, providing between \$6 and \$7 million a year. The program posed significant challenges for CSD, community action agencies and the local service providers. Due to delayed federal guidance, the program was implemented in phases, which has created challenges preparing contracts to execute. The first phase, representing 10% of the grant amount, was limited to local ramp-up and capacity building activities such as training and administrative preparation. The provision of direct weatherization services was prohibited, pending the determination of prevailing wage scales by the U.S. Department of Labor in compliance with the Davis-Bacon wage requirements (not received until December 2009).

Both the Task Force (in its Readiness Review), as well as the Bureau of State Audits in its interim audit, raised concerns that without immediate action, delays in weatherizing homes could jeopardize CSD's ability to reach its goal of weatherizing 30% of its goal by September 30 (approximately 12,000 units). Additionally, the Bureau of State Audits found that CSD needed to improve its control over cash management and lacks the written procedures necessary for preparing program reports. Further, many existing weatherization providers for non-Recovery Act programs did not want to participate in the Weatherization Program, citing Davis-Bacon prevailing wage requirements and other federal reporting requirements as impediments. In addition, CSD determined that there were potential problems with other willing providers that are impacting the ability of these agencies to contract to weatherize homes.

Energy

The Recovery Act allocated a significant share of funding toward energy projects in California. Of the \$3.1 billion provided for the Department of Energy's State Energy Program (Energy), California was awarded \$226 million. While the Energy Program existed prior to the Recovery Act, federal funding for the program grew from \$3 million in 2008 to \$226 million from Recovery Act funds as of September 2009. This represents a 7000% increase from the prior year and required a significant increase in the demands on the California Energy Commission (CEC). The Task Force recognized early on that considerable changes would need to be made at the CEC in order for Recovery Act funding to be successfully obligated. The Task Force coordinated with the Governor's Office and a number of state agencies and departments to help evaluate and determine both resource and staffing needs. The CEC also made certain to include public input when determining the program guidelines for the awarding of grants. While this took time to achieve, it was a worthwhile effort to ensure funds were distributed transparently and accountably.

The CEC allocated funds to eight programs. One of these programs supplemented the existing Energy Conservation Assistance Account Revolving Loan, and the Energy Commission added seven new subprograms as a result of the influx of funds.

During an April 2009 readiness review, GAO concluded that the CEC was not sufficiently prepared to receive, expend and provide oversight for the significant influx of Recovery Act funds they were receiving. The same conclusion was reached by the Bureau of State Audits. The CEC has taken great strides to implement additional internal controls through two contracting efforts:

1. Program Support Auditing and Consultant Services contract to provide a CEC-wide review of controls, processes and procedures, provide recommendations on areas where controls could be improved/strengthened and to conduct risk assessments and audits of funding recipients; and
2. Monitoring, Evaluation, Verification and Reporting contract to provide programmatic/performance reviews and validation of data collected/reported of funding recipients.

In addressing the Bureau of State Audits concerns that the CEC was moving slowly in the expenditure of funds, the CEC made significant progress implementing newly created programs and awarding Recovery Act funds:

- As of February 1, 2010, 31 percent of the State Energy Program (SEP) funds (\$70 million) are allocated in executed contracts to the Department of General Services, Employment Development Department, Employment Training Panel and to the Energy Conservation Assistance Account for low interest loans.
- An additional 52 percent of the SEP funds are in the process of being encumbered through active competitive solicitations for the SEP Energy Efficiency Retrofit Programs (\$110 million) and support contracts (\$6.75 million)
- The remaining 17 percent is allocated for the Clean Energy Business Financing Loan Program (\$35 million) and overall program administration (\$4.25 million). The Clean Energy Business Financing Program expects to begin awarding funds in May 2010.

The Energy Commission's changes and improvements have put them on target and within the parameters of the law for full obligation of Recovery Act funds.

Conclusions

California faced significant challenges in implementing the many programmatic components of the Recovery Act. The breadth and complexity strained many California departments' ability to establish and administer new programs and requirements. This challenge was magnified by the need to move funding into the economy quickly, thus affording departments little time to redeploy existing resources to handle the massive workload.

The Task Force and California state government responded to this challenge by establishing a framework for oversight and implementation. In many instances, whole new methods and structures had to be designed and implemented to collect and report data to provide transparency in the use of funds.

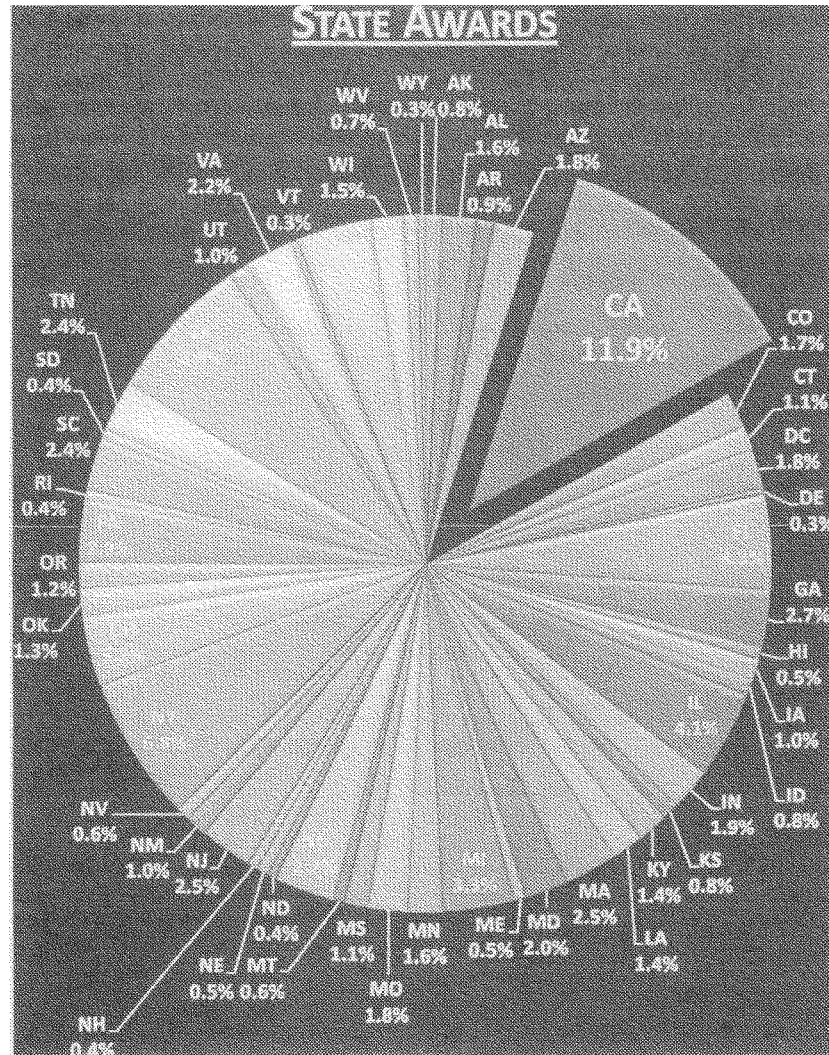
To date, California has met the challenge by securing and providing substantial Recovery Act funding that benefits the people of California. The State, and all of its public, private, and non-profit partners, is continuing its work to ensure the funding of jobs, job training, and safety net services. While the California Recovery Task Force recognizes the challenges inherent with the size and breadth of the Recovery Act, there is no task more important than ensuring California completely and accurately reports the use and impact of Recovery Act resources, and getting funding out quickly, efficiently and with complete accountability. In short, the Task Force is committed to making certain every Recovery Act dollar counts.

www.recovery.ca.gov

For a full report on all California Recovery Act activities up until September 30, 2009:

<http://recovery.ca.gov/Content/Documents/RecoveryActOversightPlan.2010.01.25.pdf>

Appendix I: State Recovery Act Awards as Percentage of the Whole Act



Created by Recovery Task Force Staff

Appendix II: Recovery Act Bulletin 09-30: Outlined New Job Methodologies for

Recovery Act Bulletin

SUBJECT: REQUEST FOR DATA USING THE CALIFORNIA ARRA AND ACCOUNTABILITY TOOL	NUMBER: 09-30
REFERENCES: AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA) OFFICE OF MANAGEMENT AND BUDGET MEMORANDUM M-10-08 RECOVERY ACT BULLETIN 09-08	DATE ISSUED: December 23 , 2009 SUPERSEDES:

TO: Agency Secretaries
 Department Directors
 Departmental Budget Officers
 Departmental Accounting Officers
 Department of Finance Budget Staff

FROM: California Recovery Task Force

Purpose: The purpose of this bulletin is to convey updated Office of Management and Budget (OMB) guidance for reporting jobs estimates required under Section 1512 of the Recovery Act

Directive: State agencies reporting on the use of ARRA funds as required per Section 1512 of the Recovery Act, should be prepared to implement OMB's updated methodology for counting jobs created and retained for the January reporting period. If the state agency is unable to implement the changes due to the short timeframe, they should immediately contact the Recovery Task Force. Any delays in data updates must be approved by the Recovery Task Force.

State agencies should also recalculate the job estimates that were reported in October for the September 30, 2009 reporting period using the updated guidance. The recalculations may be displayed on the California Web site so that users can more easily compare numbers reported for each quarter. These recalculated jobs numbers should be submitted to the Recovery Task Force by January 15th.

OMB does not require recipients to correct their September 30th data unless the data was incorrectly reported under the previously issued guidance. If there were errors in the jobs numbers reported previously, state agencies should recalculate the jobs numbers, maintain their new estimate within their internal

records, and provide them to the Recovery Task Force. OMB, at a time and process to be specified later, will request the corrections to be submitted.

Definitions

The definitions for jobs created and retained have been updated.

A job *created* is a new position created and filled, or an existing unfilled position that is filled, that is funded by the Recovery Act.

A job *retained* is an existing position that is now funded by the Recovery Act.

As noted in prior guidance, a job cannot be counted as both created and retained. However, for retained jobs, departments do **not** have to determine if a particular employee or a job classification would have been laid off without the receipt of ARRA funds. If a position is being funded through Recovery Act funds, then the hours worked should be included in the number of jobs calculation.

Other Changes

In the new guidance, recipients will only report jobs on a quarterly basis, i.e. recipients will provide a "quarterly snapshot." Recipients will **not** be required to sum hours across reporting quarters or cumulative totals or to adjust estimates of Full Time Equivalent (FTE) hours. This is an effort by OMB to simplify reporting and to follow recommendations made in the Government Accountability Office reports. Prior guidance directed recipients to report job estimates as a cumulative number.

For jobs that are proportionally funded by Recovery Act funds, the job numbers reported will only include hours funded by ARRA. See the section "Jobs Funded Proportionally" below.

Effective February 2, 2010, the federal reporting system will be open to correct data reporting during January. Details on the CAAT system's availability to accept data corrections in February will be released in a future Recovery Act Bulletin.

OMB has recommended that as a best practice, State governments post the employment impact of recovery funds prominently on the State recovery Web site. The California Recovery Web site already displays reported jobs numbers for each Recovery Act award subject to Section 1512 reporting requirements. The numbers displayed are based on the numbers reported by recipients for each award and include a total of prime recipient jobs and sub-recipient jobs.

Documentation

OMB Memo M-10-08 does not establish specific requirements for documentation or other written proof to support reported jobs numbers. However, OMB does state that recipients should be prepared to justify their

job estimates. Also, as noted in Recovery Act Bulletin 09-27:

Departments must ensure that all reported data is supported and documented. The documentation should be sufficient to provide an audit trail between the reported data and the original source document such as accounting records, grant files, executed contracts, invoices, timesheets, etc.

Recipients must also include an estimate of jobs created and retained by sub-recipients.

"To the maximum extent practicable, information should be collected from all sub-recipients and vendors in order to generate the most comprehensive and complete job impact numbers available."¹

Recovery Act Bulletin 09-27 includes a list of best practices that can be implemented by state departments to ensure that job numbers as reported by sub-recipients are valid.

It is also recommended that state agencies document and support job hours created separately from job hours retained. State agencies should use reasonable and consistent judgment to determine if a job meets the definition of created or retained. Per OMB, once a job is reported as created or retained, the recipient should continue to report this job as created or retained in subsequent quarters as long as the job hours are funded by the Recovery Act.

**Job
Calculation
Methodology**

As before, the calculation required by OMB converts hours worked and funded by ARRA into a "full time equivalent" job. However, since this is now a quarterly and not a cumulative number, the denominator does not change each quarter. Instead, state agencies should divide hours worked and funded by 520 which represents a 40 hour workweek over 13 weeks in the quarter. ($40 \times 13 = 520$)

Many of the retained positions included in the jobs total include state employees who have been furloughed 3 days a month. Even for these employees, the full time equivalent schedule should remain at 520. This ensures that jobs numbers can be compared across recipients and projects regardless of which jobs are retained or created.

The numerator of the calculation represents hours worked and funded directly by ARRA for the current quarter only. Hours worked should include benefits, vacation, sick, training and jury duty hours that would normally be counted as job expenses if funded by non-ARRA dollars.

¹ Office of Management and Budget Memorandum M-10-08, issued December 18, 2009, p. 19

The following is an example of the calculation methodology:

Period	3rd qtr	4 th qtr	1 st qtr	2 nd qtr	3 rd qtr	4 th qtr
Full Time Schedule	520	520	520	520	520	520
Full Time Employee 1	520	520	520	260	130	130
Full Time Employee 2	520	520	260	260	130	130
Part Time Employee (half time)	260	260	260	260	130	130
Temporary Employee (650 hours)	0	0	130	130	130	0
Total Hours Worked	1300	1300	1170	910	520	390
Quarterly FTE	2.50	2.50	2.25	1.75	1.00	.75

Note that the denominator remains the same for each quarter. Only hours worked and funded by ARRA are included in the Total Hours Worked. The quarterly FTE is derived by the following formula:

$$\frac{\text{Total Number of Hours Worked and Funded by Recovery Act within Reporting Quarter}}{\text{Quarterly Hours in a Full Time Schedule (520)}}$$

Jobs Funded Proportionally Many projects include multiple funding sources or in some cases, such as State Fiscal Stabilization Funds, funding is received as an offset to other funding sources such as general fund. In calculating job estimates for these scenarios, there are two acceptable methodologies.

Methodology 1 The recipient can track job hours separately for each individual based on the funding source. So, only hours directly funded by ARRA would be included in the job calculations.

The following is an example:

Employee Name	Job Title	Funded by Recovery Act?	Hours Worked Total	Hours Funded by ARRA
H. Hoover	Guard	No	n/a	n/a
W. Harding	Custodian	No	n/a	n/a
J. Carter	Technician	Yes	520	520
C. Coolidge	Guard	Yes	520	130
Z. Taylor	Guard	Yes	520	130
Total Hours Worked in Quarter			1560	780

For the job estimate calculation, 780 represents the Total Number of Hours Worked and Funded by ARRA and therefore would be used as the numerator.

Methodology
2

The second acceptable methodology can be applied when a recipient knows the overall portion of salary paid by Recovery Act funds, but doesn't track hours at the individual employee level.

The recipient will calculate the total number of FTEs associated with an activity or project funded by ARRA and adjust that total based on the proportion of funding associated with the Recovery Act.

Using the example above, only J. Carter, C. Coolidge and Z. Taylor's hours are totaled because they are the only employees working on an ARRA funded project or activity. Also assume the 1560 total hours are funded through multiple sources including Recovery Act funds, local funds and state general funds. The first step is to calculate total FTEs

$$\frac{1560 \text{ (Hours worked on a Recovery Act funded project)}}{520} = 3.0 \text{ FTE}$$

Now assume that the project or activity is funded 35% through Recovery Act funds. The second step would take the total FTE and multiply it by the portion

of Recovery Act funding.

$$3.0 \text{ FTE} \times 35\% = 1.05 \text{ FTE}$$

The recipient would enter 1.05 in their number of jobs data field.

**Educational
Institutions**

For educational institutions, typically colleges and universities, that are subject to OMB circular A-21, Cost Principles for Educational Institutions, an alternative calculation based on allocable and allowable portion of activities expressed as a percentage is acceptable. Compensation charged to sponsored projects must conform to the institution's established policies and reasonably reflect the activity for which the employee is compensated. For ARRA reporting, colleges and universities may count, proportionately, the percentage of effort directly charged to ARRA awards as a FTE equivalent. Job estimates will be based on the total available time in the reporting period, regardless of when the grant or employment period began.

For more specific guidance, contact the awarding federal agency.

Background: OMB Memorandum M-10-08, issued December 18, 2009, replaces section 5 of OMB Memorandum M-09-21 issued on June 22, 2009. M-10-08 also addresses data quality requirements. The data quality guidance will be addressed in a future Recovery Act Bulletin. However, the entire memorandum can be read at:

http://www.whitehouse.gov/omb/assets/memoranda_2010/m10-08.pdf.

OMB issued M-10-08 in an effort to include lessons learned from the first reporting period and address recommendations from the Government Accountability Office in its report, *Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, issued November 19, 2009. GAO's report can be found at: <http://www.gao.gov/products/GAO-10-223>

Questions: Questions regarding this Recovery Act Bulletin may be directed to Lisa Negri at Lisa.Negri@recovery.ca.gov

Chairman TOWNS. Thank you very much, Mr. Schultz.
Ms. Chick.

STATEMENT OF LAURA N. CHICK

Ms. CHICK. Thank you, Chairman Towns and Chairwoman Watson, who has been one of my life long role models, along with Congresswoman Napolitano and Ms. Richardson.

My name is Laura Chick, and about 10 months ago, Governor Arnold Schwarzenegger appointed me to serve in the role of California's Inspector General, watching over about \$85 billion of Recovery Act dollars coming to California.

The Recovery Act is designed to create jobs to get our economy moving again. But it also must be about our spending this money better than ever before.

We have an opportunity to show that transparency and accountability are not just buzz words. If we as government, at the Federal, the State, and the local level, do this right, we can go a long way to restoring the public's trust and confidence that government can actually spend their tax dollars wisely and well.

We can show them the positive and productive role that government can play in their every day life and in their well being.

To that end, when Governor Schwarzenegger appointed me last April to oversee the spending, my mission was crystal clear—the three Ds. As a social worker, Congresswoman Napolitano, I know you understand the prevention part.

It is to deter, detect, disclose waste, fraud, and inefficiencies. I apologize but I also have a category called "stupid spending." [Laughter.]

The FBI has estimated that we can expect to lose somewhere between 7 to 10 percent in Recovery Act funds fraud. They quote that after Hurricane Katrina in New Orleans, the rate of fraud was 17 percent. I know for all of us, those are completely stunning and unacceptable figures.

That is why so much of my job is about preventing fraud and preventing problems at the front end. My office brought together the U.S. attorneys, the Federal Inspectors General, the FBI, U.S. Department of Justice, to do comprehensive fraud awareness and prevention training up and down the State, and then a live Webinar for over 2,000 staff and recipients handling recovery dollars.

We also have issued an advisory to all recipients of recovery dollars in the State. It is a checklist of good practices to prevent fraud at the front end. I'm going to give a recent, real life, unfortunate example that easily could have been prevented. Not a catastrophe, but a great lesson learned to shoot out, up, and down the State.

A city-hired contractor for a construction project, a company they had never used before, his bond turned out to be forged, and he skipped town after being paid for a portion of the work. But sadly, his workers were never paid. A simple phone call from the city to the bond company could have and would have prevented this from happening.

It is also learned that the owner of the company had State tax liens. That is a big red flag that is called out in my advisory to try

and help cities and counties and others to know what to do at the front end to stop the problem.

Just this January, my office finally received audit staff to be able to go out into the detection and disclosure phases. My two strike teams of auditors are out in the field following recovery dollars, out into our streets and neighborhoods and with some recipients.

These very expedient, in real time focus reviews are going to give us important snapshots into how the recovery dollars are being spent right now.

On Tuesday, I released my first report. It was of a local work investment board. These boards have already received and spent significant dollars across the country to help summer youth, dislocated, and adult worker programs.

What we found, unfortunately, were very sloppy business and accounting practices. In fact, Basic Accounting 101 was not being followed. They had received over \$3 million for the summer youth program, but an allocated \$1 million of that to cover overhead, including rent. Whoops. They have run as quickly as possible behind us, that is the good news, to correct the mistakes as we were finding them.

Now they have agreed to charge \$60,000, appropriately, for overhead and rent, and they are going to redirect the difference between the \$60,000 and the \$1 million for the summer youth program this upcoming summer.

That is what my office is all about. It's real time results, not at the end when the Recovery Act is over, and maybe California and some recipients will be faced with returning dollars. I am trying to prevent that, as well as others in the oversight family.

It is our mission to catch the problems early and correct the problems quickly and see that the dollars are being spent to create jobs, rev the economy and show the public that we know how to spend their dollars effectively and well.

Thank you.

[The prepared statement of Ms. Chick follows:]

Testimony of Laura N. Chick, California Inspector General for ARRA Spending

Thank you Chairman Towns and Congressman Issa for holding this hearing in California

The Recovery Act is designed to create jobs and get our economy moving again, it must also be about us spending this better than ever before. We have an opportunity to show that transparency and accountability are not just buzzwords.

If we as government—federal, state and local levels—do this right we can go a long way in restoring the public's trust.

To that end when Governor Schwarzenegger appointed me in April as Inspector General to oversee the state's spending of Recovery Act funds the mission and vision was crystal clear. It was to deter, detect and disclose waste, fraud and what I term stupid spending.

The FBI has estimated that we can expect to lose 7-10% in the Recovery Act funds to fraud. In the aftermath of Hurricane Katrina was 17%.

That is an absolutely unacceptable figure and is why so much of my job is about preventing fraud on the front end. My office brought together the US Attorneys, Federal Inspectors General, FBI, and US DOJ to do comprehensive fraud awareness trainings around the state and in a live webinar for over 2,000 staff involved in handling Recovery Act dollars.

I have also issued an advisory, to all recipients of Recovery dollars, meant as a checklist of good practices to prevent fraud on the front end.

I'll give you a recent real life sad example that could have easily been prevented. The City of Sacramento hired a contractor for a construction project. Someone they had never used before.

His bond turned out to be forged, and he skipped town after being paid for a portion of the work. Unfortunately his workers were never paid.

A simple phone call from the City of Sacramento to the bond company would have prevented this from happening. It also turns out that the owner of the company has state tax liens, another red flag.

In January my Office finally received audit staff to be able to go into the detection and disclosure phases. My strike teams of auditors are going out in the field following the Recovery Act dollars out onto our streets and neighborhoods. These expedient and focused reviews are going to give us important snapshots into how the Recovery Dollars are actually being spent

On Tuesday I released my first report of the Workforce Investment Board of Tulare County. These boards are receiving significant Recovery dollars to help fund summer youth, dislocated and adult worker programs. What we found in Tulare were very sloppy business and accounting practices. In fact basic Accounting 101 wasn't even followed

The Workforce Board received over Three Million dollars for the summer youth program and allocated one million dollars of that to cover its overhead costs. The WIB has now agreed to charging \$60,000 to overhead, not one million, and will re-direct nearly one million into the summer youth program this year

That's what my Office is about real time results, not waiting for some review once the program is over to show the mistakes. I'm on a mission to catch the problems early, correct the problems quickly and see that the dollars are actually being spent to create jobs and rev the economy

Chairman TOWNS. Thank you very much for your statement.
Ms. Howle.

STATEMENT OF ELAINE M. HOWLE

Ms. HOWLE. Thank you, Mr. Chairman, Madam Chair, Members of Congress. It is an honor to be here on behalf of the State Auditor's Office in California and talk to you a little bit about the oversight activities that my office has conducted in the last 9 months with regards to Recovery Act dollars.

The programs that I am going to discuss today are the highway planning and construction program, State fiscal stabilization program, weatherization, and the State energy program.

With regard to the highway planning and construction program, this is a program that is administered by our Department of Transportation, commonly referred to as Caltrans in California.

We issued a report in December looking at their management of Recovery Act dollars in California, getting the funds out for the local projects. We had one concern, and this was a concern that was shared by the Federal Highway Administration, and basically what this concern was, was making sure that the costs that are being paid for the reimbursement, as Ms. Calhom talked about, the reimbursements that we paid are for appropriate activities, and for work that has actually been completed.

Subsequent to our review, the Department of Transportation has modified their practices to require engineers out in the local level representing Caltrans to confirm that the work has been done, and that those invoices are appropriate and before the reimbursement takes place. We are happy with that progress.

With regards to the State's fiscal stabilization program, as you are aware, significant dollars came to California with regard to this program. Our issue with this program, and Mr. Payne will be able to speak to this on behalf of the Department of Education, again, it is cash management.

Cash management has consistently been a concern that we have raised on previous single audits, and looking at the stabilization program, we have the same concern.

\$1.6 billion was advanced to school districts in the first quarter of fiscal year 2009/2010. About \$571 million was spent. Therefore, a \$1 billion was not spent at the school district level.

That is something that again is a concern as far as meeting cash management responsibilities and requirements under Federal regulations.

The weatherization program. As again GAO indicated, this is a program that increased significantly in California, going from approximately \$6 to \$10 million annually to \$186 million. California received authority to spend that money starting in July 2009, but it has been delayed, both by delays at the Federal level and at the State level.

The delays at the Federal level are with regard to Davis-Bacon. That is a brand new requirement under this program, and the Davis-Bacon prevailing wage rates were not issued by the U.S. Department of Labor until September. Then there were concerns with the amounts of those rates, and they were then revised in December 2009.

So that really put the State of California kind of behind as far as far as being able to contract with providers. When we were looking at this from the State's perspective back in December 2009, we only saw contracts with eight providers in California. So again, that really does slow the process of implementing this particular program, and raises concerns on our part, as the State tries to ramp up, that they make sure they have proper controls in place, so that when they do contract with providers, those providers are capable of doing the work and doing quality work.

The other concern we had with regards to weatherization programs, there were five key geographic areas in California that had not been covered yet. Los Angeles is one of those areas. Other counties in the Bay Area as well at the time we issued this report did not have providers ready and willing to participate in the weatherization program.

The last issue area for this particular program is related to the monitoring and making sure that recipients were aware of the Davis-Bacon requirements, were complying with those requirements, and certainly making sure that the inspections were being done on a quarterly basis, as is required by this particular program.

We do have some serious concerns about the Department of Community Services and the State government's ability to manage this program.

The final program that I would like to speak about is the State energy program. This is one that we had administered by the Energy Commission. Again, this is a program that increased substantially for our State, going from about a \$3 million program to a \$226 million program.

And similar to the weatherization, we have been very slow to implement this program. In fact, when we completed our audit in December, the State had only awarded two contracts, one to the Department of General Services, which is a State entity that works with State agencies as far as buildings. The purpose of that was for retrofitting buildings, providing energy efficiency measures.

The other contract was with the Employment Development Department, and that was for green jobs, to provide job training for people for energy efficiency type projects.

So we are very concerned about this program, particularly because the funds have to be fully obligated by September 30th of this year.

So again we have made recommendations to this end and the administration to really strengthen their controls, strengthen their management practices, and put some resources toward this particular program.

With that, I am certainly happy to answer any questions that the committee may have. Thank you.

[The prepared statement of Ms. Howle follows:]

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**Joint Hearing Held by
House of Representatives
Committee on Oversight and Government Reform and
Subcommittee on Government Management, Organization and Procurement
March 5, 2010**

**Statement by Elaine M. Howle
California State Auditor**

Chair and Members of the Committees:

I am pleased to be here today in Los Angeles at the California Science Center to discuss our State's implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act). My office is the State's independent and nonpartisan audit, evaluation, and investigative arm of the Legislature and Californians. In addition to conducting performance audits as requested or mandated by the Legislature, my office is required to annually conduct California's statewide Single Audit, which is a combination of the independent audit of the State's basic financial statements and the independent audit of numerous federal programs administered by California. The audit work conducted by my office is in accordance with audit standards issued by the United States Comptroller General/Government Accountability Office (GAO), including standards we must follow to qualify as an independent auditor. To preserve the independence of my office and to ensure the receipt of federal funds each year, state law requires my office to follow those standards and explicitly frees my office from control by the executive branch.

Moreover, my office is responsible for administering California's Whistleblower Protection Act, which gives my office the authority to conduct investigations into improper governmental

activities by state departments and employees during the performance of their duties. An “improper governmental activity” is any action that violates the law; is economically wasteful; or involves gross misconduct, incompetency, or inefficiency. Under this act, anyone can report to my office allegations of fraud, waste, and abuse involving public funds, including Recovery Act funds, and remain anonymous.

Though California like other states has benefited from the influx of Recovery Act funds, it has had its share of challenges—awarding and spending these fund with the speed contemplated in the Act, reporting the public benefits, and complying with other federal requirements governing the use of federal funds including Recovery Act funds. My office is among several oversight entities responsible for overseeing the State’s administration of these federal dollars and suggesting changes to make sure California state departments comply with laws and regulations to avoid risking the loss or misuse of these precious dollars. Today I will provide the committee a description of the oversight activities my office has undertaken with respect to Recovery Act funds to achieve the unprecedented accountability and transparency objectives that are the cornerstone of the Recovery Act. Reports that my office has issued are available on the California State Auditor’s Web site at www.bsa.ca.gov. I will also discuss the deficiencies we have identified related to the State’s implementation of the Recovery Act with a focus on the Weatherization program, the State Energy program, and programs administered by California’s departments of Education (Education) and Transportation. Finally, I will tell you about the changes and improvements California has made to ensure these Recovery Act funds are administered properly.

Background

On February 17, 2009, the president signed into law the Recovery Act to help fight the negative effects of the economic recession. The Recovery Act provides states, local governments, and other entities \$787 billion intended to preserve and create jobs; promote economic recovery; assist those most affected by the recession; invest in transportation, environmental protection,

and other infrastructure; and stabilize state and local government budgets. It is estimated that California will eventually receive \$85 billion from the Recovery Act with nearly \$55 billion going to local entities and state departments and about \$30 billion in the form of tax relief to Californians.

Accountability and transparency are the cornerstones of the Recovery Act. The federal Office of Management and Budget (OMB) in its initial guidance for implementing the Act directed federal agencies to immediately take critical steps to meet specific accountability objectives related to the Act. These objectives include transparency; awarding and distributing the funds in a prompt, fair, and reasonable manner; reporting clearly, accurately, and in a timely manner the public benefits of the funds; avoiding unnecessary delays and cost overruns of projects; and achieving program goals, such as program outcomes and improved results on broader economic indicators. The OMB updated its initial guidance to clarify existing provisions, such as those related to implementing the reporting requirements and to establish the steps to facilitate the accountability objectives of the Act.

The Recovery Act contains various reporting requirements for recipients including state and local governments. Most notably, Section 1512 of the Recovery Act requires certain recipients to report performance data quarterly beginning October 2009 with detailed information on the projects and activities funded by the Recovery Act. These reports are intended to provide the public with an unprecedented level of transparency into how federal dollars are being spent and to help drive accountability for the proper administration of Recovery Act dollars. Even though at this point the OMB has not provided specific guidance for auditing these reports, my office has reviewed the methods the state departments used to provide the data in the October 2009 reports.

The unprecedented transparency and accountability objectives of the Recovery Act require rigorous and continuous oversight. The federal government is relying on the Single Audit as its

primary tool to achieve the accountability objectives. My office has conducted the Single Audit since 1985 as required by California law. The Single Audit Act of 1984 was enacted to improve auditing and management of federal funds provided to state and local governments as well as promote sound financial management, including effective internal controls with respect to federal awards administered by state and local governments and nonprofits. In addition to internal controls, the Single Audit Act dictates that the audit focus on compliance with laws and regulations regarding federal awards. Compliance refers to how well the respective agency receiving federal funds adheres to the requirements in federal law, regulations, contracts, and grants applicable to each of its federal programs.

The OMB provides guidance for conducting the Single Audit of federal financial assistance programs, including those programs authorized or augmented by the Recovery Act. The number and type of federal programs audited each year as part of the Single Audit is formula-driven as required by the OMB. The OMB requires certain programs to be audited every year and others to be audited on a cyclical basis, both of which are considered major federal programs. The most recent Single Audit completed by my office covering state fiscal year 2007-08—before Recovery Act funding—includes 43 federal programs, which represented about 78 percent of the \$76 billion in federal awards received by the State. With the huge influx of Recovery Act funding, my office will audit 55 programs representing about 97 percent of the \$107 billion in federal awards, including Recovery Act funding California received during state fiscal year 2008-09.

Although initial estimates indicate that approximately \$55 billion of Recovery Act funding would be allocated to California state and local governments through federal awards, California's receipt/expenditure of these funds is occurring at a much slower pace than originally anticipated. As a result, we expect significant receipt/expenditure of these funds to occur during state fiscal year 2009-10 and beyond making future Single Audits critical to the oversight of these Recovery Act dollars.

Oversight Activities

The enormous effort of successfully implementing the Recovery Act in an atmosphere of urgency and short timelines requires coordination of oversight at all levels of government. Among its many provisions, the Recovery Act directs the Recovery Accountability and Transparency Board (Recovery Board) to conduct oversight of federal agencies' handling of Recovery Act funds in order to prevent fraud, waste, and abuse and to coordinate its oversight activities with the GAO and state auditors. As such, shortly after the Recovery Act was signed into law, my office began coordinating with several entities by participating in regular conference calls with OMB, the U.S. Department of Health and Human Services (California's cognizant agency), the National State Auditors Association, and other state auditors to give and receive feedback regarding guidance for implementation of the Recovery Act and to discuss other Recovery Act-related issues. In fact, OMB requested that my office participate in a pilot project it established to provide management and those charged with governance useful, timely, and important information on internal control or compliance weaknesses so that identified deficiencies are corrected immediately. Representatives from the Recovery Board and the U.S. Department of Health and Human Services recently notified me that the interim reports published by my office are widely read at the federal level and posted on the www.Recovery.gov Web site.

The Recovery Act states that the federal funds authorized should be spent to achieve the purposes of the Recovery Act as quickly as possible, consistent with prudent management. As a result, in April 2009, shortly after the Recovery Act was signed into law, my office designated California's system for administering these funds a high-risk issue area and exercised our authority to initiate audits and conduct reviews. Given the vast amount of funds California expects to receive, the extensive requirements the Recovery Act places on recipients, the limited amount of time the State has to spend some of these funds, and the risk that California may lose Recovery Act funds if it fails to comply with the requirements, my office

initiated preparedness reviews and early testing of internal controls. In June 2009 OMB issued guidance emphasizing the importance of recipients of Recovery Act funds establishing effective internal controls over these funds, and encouraging auditors to promptly communicate internal control deficiencies to management and those charged with governance.

After designating the State's system for administering Recovery Act funds a high-risk issue area, my office increased its scrutiny of these funds by conducting oversight activities to help ensure California is prepared to properly administer these funds and is meeting federal requirements to avoid the risk of losing Recovery Act dollars. My office has and continues to perform the oversight activities listed below:

- Conducted risk assessments in April and July 2009 to identify the federal programs receiving Recovery Act funding and the administering state departments for which we would conduct preparedness reviews and early testing of internal controls. The risk assessments include factors such as an analysis of the portion of the Recovery Act funds that California expected to receive, the formula for determining which programs require an audit, the number and type of recurring internal control and federal compliance deficiencies previously reported, and whether the state departments had previously administered large federal programs. OMB guidelines require auditors to conduct a risk assessment to plan the traditional Single Audit work each year.
- Performed preparedness reviews and early testing of internal controls at departments identified through the risk assessments. To conduct the preparedness reviews, we used a questionnaire—developed using guidance from the OMB—interviewed key personnel, and reviewed supporting documents on the processes and procedures the departments intended to use to comply with federal requirements related to the Recovery Act funds. In addition, we reviewed our most recent Single Audit to identify relevant findings citing internal control weaknesses. Further, we performed limited testing of those control

weaknesses the departments asserted they had fully corrected to verify whether their assertions were accurate.

- Conducted interim testing and issued early reports on internal controls and federal compliance deficiencies, which consist of reporting the results of the traditional Single Audit work on those federal programs my office determined to be major programs and expected to receive Recovery Act funds. Rather than waiting to report the Single Audit results when the audit work for all major federal programs is complete, my office is publishing interim reports as we complete our audit work for each Recovery Act program as suggested by the OMB.

Results of Preparedness Reviews and Early Testing of Controls

As of February 2010 my office has published eight letters or reports (excluding the high-risk designation letter issued April 22, 2009) on the results of early testing and/or preparedness reviews conducted on 31 federal programs at 13 state departments administering multiple federal programs receiving Recovery Act funds. Following are a few highlights from these letters and reports specific to Recovery Act funding.

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 (2009-119.2, February 2, 2010)

The Recovery Act designated a national total of \$5 billion for the Weatherization Assistance for Low-Income Persons (Weatherization) program of which the U.S. Department of Energy (Energy) awarded California almost \$186 million in April 2009. By July 28, 2009, Energy made available nearly \$93 million of the \$186 million award to California. The remaining half, or \$93 million, will be available if California demonstrates progress in implementing the program by meeting certain performance milestones. The performance measures used by Energy include states weatherizing 30 percent of all units estimated to be completed in the approved

program plans, states fulfilling monitoring and inspection protocols, acceptable progress reports submitted by states in accordance with grant requirements, and states conducting monitoring reviews to confirm acceptable performance.

The federal Weatherization program is designed to improve home energy efficiency for low-income families through the installation of weatherization materials such as attic insulation, caulking, weather stripping, furnace efficiency modifications or replacements, and air conditioners. In its administration of the Weatherization program, the California Department of Community Services (Community Services) provides program funds to nonprofit organizations and local governments to perform these weatherization assistance services. In addition, Community Services monitors the service providers for compliance with grant terms and conditions, and it may take enforcement action against these service providers.

The Weatherization program is one of five federal programs that the Joint Legislative Audit Committee—a bicameral, bipartisan legislative committee that approves and prioritizes audits requested by the Legislature—approved as part of an audit requiring my office to determine the extent to which Community Services is prepared to receive and administer Recovery Act funds awarded by Energy. Community Services was selected for review, in part, because historically California has received an average of about \$6 million in federal awards for this program each year and under the Recovery Act the amount was significantly increased to \$186 million.

In our report dated February 2, 2010, we concluded that startup of the Weatherization program has been delayed because federal oversight agencies and Community Services have not yet completed necessary tasks. Specifically, as we completed our fieldwork last December, Community Services told us that as of December 1 it had not weatherized any homes using Recovery Act funds even though nearly \$93 million had been available since July 28, 2009. However, in its January 25, 2010 response to our report, Community Services asserted that

service providers had weatherized 210 homes with an additional 790 in the pipeline or the preparation stage. We have not been provided with any documentation to support these assertions. Furthermore, even if 210 homes had been weatherized, Community Services is far from its goal of weatherizing 1,433 homes per month. In addition, Community Services has not developed the cost-effective measures to weatherize homes using the Recovery Act funds, has been slow in negotiating agreements with service providers that cover grant terms such as cash management, and has not developed procedures for monitoring the additional requirements service providers must comply with when using Recovery Act funds.

Federal Agencies' Delays Have Stalled Implementation of the Weatherization Program

Delays in establishing minimum wage rates for weatherization workers and providing training by federal oversight agencies have stalled the implementation of the Weatherization program. Specifically, the U.S. Department of Labor (Labor) did not provide prevailing wage determinations for weatherization workers, as required by the Davis-Bacon Act, until September 3, 2009, and did not finalize wage rates until December 2009. The Davis-Bacon Act, which requires contractors and subcontractors for certain federally funded projects to pay their laborers no less than the prevailing wage rate as determined by Labor, did not apply to the Weatherization program until the passage of the Recovery Act. As a result, Labor had never before established classifications or prevailing wage rates for the Weatherization program workers.

On September 3, 2009, Labor announced the worker classifications and minimum wages that must be paid to California weatherization workers, but Energy did not provide guidance and training for preparing the payroll certifications necessary under the Davis-Bacon Act, until October 7, 2009. Furthermore, Labor revised the wage rates effective December 11, 2009, in part because some states' service providers and contractors notified Labor of a number of inconsistencies in the rates. According to Community Services, the service providers felt that the hourly rates were too high in specific cases. For example, the service providers felt that the

hourly rate determination of \$62 per hour for workers performing heating, ventilation, and air conditioning work for five California counties was excessive. In the revised rate announcement, Labor reduced the minimum rate for this classification to \$27 per hour.

Before a service provider can begin weatherizing homes, Community Services' policy requires them to submit for approval, plans for complying with the Davis-Bacon Act and the payroll reporting requirements, including the compliance plans for any subcontractors that the service provider intends to use. The service providers must also ensure that any subcontractor it uses complies with the Davis-Bacon Act and submit the subcontractor's compliance plan to Community Services for approval. However, because Labor did not finalize the wage rates until December 2009, and because Energy did not provide guidelines and training regarding the requirements for the Davis-Bacon Act until October 2009, Community Services could not approve either the service providers' or their subcontractors' plans for complying with the Davis-Bacon Act until very recently.

In addition, Community Services asserts that delays were partially the result of its inability to complete certain tasks while it waited for federal guidance. For example, Community Services had not yet identified and received approval from Energy for the weatherization measures that are allowable under the program. These are allowable weatherization measures based on climate zones and the Weatherization program's cost-effectiveness requirements. Community Services allowed providers to accept applications for weatherization assistance and perform assessments of the weatherization measures needed using the standards established for the program before it received Recovery Act funds, but Community Services advised its service providers that no weatherization work could begin until the measures were approved for the program using Recovery Act funds. Community Services is testing a computer modeling program that it plans to use to develop a list of priority measures to ensure the weatherization activities for each home meet Energy's cost-saving benefit requirement and had hoped to present the modeling program to Energy for approval within the two-month period following

the end of our fieldwork in December. In the meantime, for those service providers with signed contracts and approved plans to comply with prevailing wage requirements, they were allowed to begin weatherization activities using standards established last year.

Community Services' Weatherization Program Is Unlikely to Attain the Performance Milestones Set by Energy

Community Services asserts that it must meet certain performance milestones issued by Energy to gain access to the remaining \$93 million Energy awarded California. For instance, Community Services reported that it has until September 30, 2010, to weatherize 30 percent of the total 50,080 homes, or 15,024 homes, in the State's approved plan for its Weatherization program—nearly the same number of homes that Community Services weatherized during the entire four-year period from 2005 through 2008 from Energy's previously existing Weatherization program. In this plan, Community Services initially estimated its service providers would weatherize the 50,080 homes at an average cost of \$1,938 per home. However, Community Services advised the service providers to increase the average cost to \$3,500 per home based on the likelihood that the number of weatherization measures allowed under the program would increase, the increase in the amount paid to workers based on the prevailing wages set by Labor, and the expectation that less funding from other federal programs would be used to pay for weatherization services. As we completed our fieldwork in December 2009, Community Services stated that it was conducting a survey of service providers the week of January 4, 2010, to obtain an estimate of the number of homes it believes it can weatherize based on the updated cost figures. In its January 25, 2010 response to our report, Community Services reported that it now believes that a total of 43,150 homes would be weatherized.

Community Services must also demonstrate to Energy that it has an effective monitoring plan, complies with quarterly reviews of each service provider's performance, and conducts an on-site review of each subrecipient within a year. Although Community Services says it has a

monitoring plan, it had not yet updated the plan to include additional areas of monitoring related to compliance with the Recovery Act's Davis-Bacon Act requirements. At the time of our fieldwork, Community Services was in the process of hiring a private company to perform the mandated inspections of homes after they are weatherized. Community Services also planned to update its monitoring plan to include Davis-Bacon Act requirements.

Community Services Has Executed Contracts With Only a Few Service Providers

Although no homes were weatherized as of December 1, 2009, Community Services had made progress in obtaining agreements with service providers. Of the \$93 million available to it, Community Services retained \$16.3 million for the State's administrative costs and to provide training and technical assistance to service providers. Of the remaining \$76.6 million, Community Services records showed that it had awarded 36 grants totaling almost \$54.8 million to service providers. As of December 22, 2009, Community Services had fully executed contracts and approved compliance plans for eight service providers, allowing them to begin weatherizing homes. Further, Community Services had approved compliance plans for eight additional service providers, but it had not yet executed contracts for them by the end of our fieldwork. The remaining 20 service providers had not yet submitted their compliance plans and could not begin weatherization activities.

Community Services had not awarded the remaining \$21.8 million because of pending enforcement actions against three service providers and it needed to make alternative arrangements for five geographical regions—Los Angeles, Alameda, San Mateo, El Dorado, and Alpine—that were not represented when we concluded our fieldwork. The geographic regions include multiple service areas. Two service providers serving parts of the Los Angeles region opted out of their contracts; one felt it would be difficult to comply with Recovery Act requirements such as the Davis-Bacon Act, and the other opted out after Community Services identified findings during its audit of the service provider. As a result, few providers were ready

to begin weatherizing homes in California, and even those few were not using the final weatherization measures yet to be completed by Community Services and approved by Energy.

Community Services Needs to Improve Its Controls Over Cash Management for the Weatherization Program

Community Services is not complying with the federal requirement to minimize the amount of time between when cash is advanced and the subrecipient disburses the funds. Although federal regulations allow Community Services to provide cash advances under certain circumstances, Community Services and its subrecipients must follow procedures to ensure that the advances are made as close as possible to the time the subrecipient actually makes disbursements for program or project costs. We found that as of December 28, 2009, of the approximate \$966,000 Community Services advanced to four subrecipients, roughly \$748,000 was still outstanding, and \$99,000 had been outstanding for over 100 days. Further, Community Services' cash management policy allows advances of Weatherization program funds to subrecipients without obtaining the required authorization. Specifically, Community Services' policy allows a subrecipient to receive a cash advance of 25 percent of the total grant award by providing a listing of the expenses that will be paid using the advance and certifying it has no other source of funds available. Under this policy, subrecipients are required to offset at least 30 percent of the cash advance against their expenditures within three months and the remaining balance within six months. Because of the extended period allowed by its policy for liquidating advances, Community Services is not complying with the federal requirement to minimize the amount of time between when the cash is advanced and when disbursement of funds takes place.

Finally, Community Services did not fully complete a required report to Energy for the reporting period ending September 30, 2009, because of access problems when it moved to a new location. As a result of the incomplete report, job creation data reported through the State's Recovery Act Web site does not match information submitted to Energy. And although it had

no weatherization activities to report, Community Services reported 81 jobs created or retained as a result of the training and technical assistance activities conducted by its contractor and the service provider network's efforts to start up the Weatherization program.

Recommendations

In this report we recommended that to ensure California receives the remaining 50 percent of the \$186 million award, Community Services should seek federal approval to amend its plan for implementing the Weatherization program and seek an extension from Energy for fulfilling the progress milestones. Further, Community Services should promptly develop and implement the necessary standards for performing weatherization activities and develop a plan for monitoring subrecipients. Additionally, we recommended that Community Services ensure it has the authority to provide advances as outlined in its current policy so that it complies with federal cash management rules that govern the Weatherization program.

Audit Follow-Up

State law requires state agencies that my office audits to submit periodic status reports regarding the respective state agency's progress in implementing audit recommendations. In keeping with our longstanding practice, my office requires state agencies to submit these status updates 60 days, six months, and one year from the published date of the audit report. Using these status reports my office will track the progress that Community Services is making to implement the audit recommendations. The first status report is due on April 2, 2010; however, we have informed Community Services that it should submit its 60-day response to my office by mid-April so that it can include a report of the number of homes weatherized through March 31, 2010.

Interim Reporting: Fiscal Year 2008-09 Single Audit***California Department of Education: State Fiscal Stabilization Fund—Education State Grants, Recovery Act*** (2009-002.3, January 26, 2010)

California's public education system is administered at the state level by the State Department of Education (Education), under the direction of the State Board of Education and the superintendent of public instruction (superintendent), to educate approximately 6.3 million students in roughly 967 school districts. The primary duties of Education and the superintendent are to provide technical assistance to local school districts and to work with the educational community to improve academic performance.

Our most recent report on Education's administration of Recovery Act funding included a review of Education's portion of the State Fiscal Stabilization Fund (Stabilization Program). The Recovery Act provides the U.S. Department of Education \$53.6 billion to administer the Stabilization Program of which the federal Education agency can allocate to states to support education and other governmental programs. The Recovery Act requires states to spend 81.8 percent of their allocation to support elementary, secondary, and postsecondary education, while spending the remaining 18.2 percent for public safety and other governmental services. In state fiscal year 2008-09, California received \$2.8 billion under the Stabilization program. The Governor's Office of Planning and Research, the official state recipient of this funding, entered into an interagency agreement with Education to disburse \$1.6 billion of the Stabilization Program funds to local educational agencies (LEAs)—such as school districts and county offices of education—to restore funding to K-12 education. In addition, California used \$726.8 million for public safety, and the remaining \$537 million was designated to restore funding to the University of California and the California State University systems.

Education Lacks Adequate Controls to Ensure All Interest Earnings on Program Advances are Appropriately Remitted to the Federal Government

Federal regulations require recipients and subrecipients of federal funds to promptly remit to the federal government interest earned in excess of \$100 on program advances. These amounts must be remitted to the federal agency on at least a quarterly basis. However, Education lacks adequate policies and procedures to ensure LEAs that earn interest in excess of \$100 remit such interest to Education who then can remit the interest to the federal government. Although Education notifies LEAs of this responsibility in its award notices, it does not have a process to monitor whether LEAs adhere to this requirement. During our audit, we found that LEAs have likely earned interest on over \$1 billion in unspent federal funds because Education advanced \$1.6 billion in program funds to LEAs by June 30, 2009, and reported that these LEAs had spent only \$571.2 million as of September 30, 2009. After applying a conservative annualized interest rate of 1 percent, we estimate the LEAs may have earned nearly \$2.5 million in interest from July through September 2009. In response to this finding, Education indicated that it has implemented new monitoring and tracking processes to facilitate the LEAs' compliance with federal interest requirements. Education also stated that it worked with the U.S. Department of Education to develop guidance for LEAs regarding federal interest requirements, which Education said it would provide to LEAs in late-January 2010.

Although Education indicated it has addressed this most recent deficiency related to cash management, it has a history of recurring cash management deficiencies that it may not have fully corrected. For example, despite repeated audit findings over several years, Education has not implemented an agency-wide cash management system that minimizes the time between LEAs' receipt and disbursement of federal funds. Shortly after the president signed the Recovery Act, my office conducted an assessment of the State's preparedness to administer Recovery Act funding at Education and three other state departments expected to receive significant amounts of Recovery Act funds in state fiscal years 2008-09 and 2009-10. These

departments intended to rely on existing internal controls to administer federal programs. However, my office identified 12 internal control deficiencies that may affect Education's ability to administer Recovery Act funds. These deficiencies were reported in previous audits my office conducted. In June 2009, when my office issued the first report assessing the State's preparedness to administer Recovery Act funds, Education had not fully corrected nine of these 12 deficiencies and had taken minimal or no action to correct two of the nine deficiencies. For example, we reported that Education had disbursed significant federal dollars to LEAs during state fiscal year 2007-08, with no assurance that these subrecipients minimized the time between the receipt and disbursement of these funds. Additionally, in its March 2009 report on Education's cash management practices, the inspector general for the U.S. Department of Education stated that Education had not implemented an agency-wide cash management system that minimizes the time elapsing between LEAs' receipt and disbursement of federal funds, despite repeated audit findings over many years. Education had not fully corrected three of the five internal control weaknesses regarding cash management identified in the Single Audit for state fiscal year 2007-08 and for two of those three it had taken minimal or no action to correct the weakness.

California Department of Transportation: Highway Planning and Construction
(2009-002.2, December 21, 2009)

The California Department of Transportation (Caltrans) administers the Highway Planning and Construction Program, which received more than \$2.8 billion in federal funds of which approximately \$1.2 million (less than 1 percent) is Recovery Act funding for fiscal year 2008-09. Caltrans uses federal funds under this program to make capital improvements to designated highways and to provide subgrants to cities and counties for similar projects. As of December 1, 2009, my office identified findings related to Caltrans' noncompliance with federal requirements concerning allowable costs and subrecipient monitoring.

Caltrans Has Recently Improved Its Procedures to Better Ensure That It Disburses Federal Funds to Local Agencies Only for Reasonable Costs

In 1992 the U.S. Department of Transportation—Federal Highway Administration (FHWA)—delegated to Caltrans the responsibility for authorization and oversight of certain federally funded projects, such as all highway projects not located on the National Highway System (NHS). For state-authorized projects that are developed and administered by local agencies, Caltrans agreed to provide the necessary review and oversight to assure compliance with federal requirements. However, during state fiscal year 2008-09, Caltrans lacked adequate internal controls to ensure that its progress payments—payments made while a project is ongoing—to local agencies were reasonable according to federal guidance. Specifically, Caltrans' accounting staff did not review local agency progress invoice packages to determine whether the costs claimed met federal eligibility requirements and did not verify that the work actually performed was consistent with the progress costs invoiced. In response to concerns raised by the FHWA, Caltrans changed its policy effective September 1, 2009, requiring engineers at the district offices to ensure that the work claimed on progress invoices was actually performed and eligible for reimbursement.

Caltrans' Jobs Data (for the October 2009 Quarterly Report) Seems Questionable Even Though It May Have Followed Guidance

Federal guidelines do not currently require us to, nor did we, audit the information recipients must report under Section 1512 of the Recovery Act. Nonetheless, in keeping with OMB's emphasis on early communication of issues to management, we conducted a high-level review of the methodology that Caltrans used to report the number of jobs created or retained with Recovery Act funds. Based on our preliminary review of Caltrans' October 2009 first quarterly reporting of nearly 1,590 jobs created or retained, we believe Caltrans followed the applicable guidance; however the number of jobs is overstated. Caltrans reported that it spent \$26.7 million in Recovery Act funds to create or retain these jobs but acknowledged that the jobs figure was overstated for a variety of reasons, including that it counted jobs on some

construction projects twice. Furthermore, Caltrans reported jobs created or retained for 152 projects; but 94 of these projects representing 892 jobs created or retained had yet to spend any Recovery Act funds. Therefore, we also question the accuracy of the 892 jobs reported for these 94 projects. FHWA planned to review state's jobs data to check for errors, but it appears that FHWA did not validate the data.

Department of Corrections and Rehabilitation: State Fiscal Stabilization Fund Program—Government Services (2009-002.1b, November 23, 2009)

As previously mentioned, the Recovery Act allowed states to spend 18.2 percent of their stabilization program allocation for public safety and other government services, which may include educational programs. In the State's application for initial funding under the Stabilization Program, the governor indicated that California would use the entire government services portion of its allocation on public safety. The California's Department of Corrections and Rehabilitation (Corrections) administered this portion of the State Fiscal Stabilization Program.

Corrections' Use of Stabilization Funds to Reimburse Its Payroll Costs Was Appropriate

In the letter report my office published on November 23, 2009, we noted that of the \$2.8 billion in stabilization funds the State had received by mid-June 2009, Corrections spent its entire \$726.8 million (18.2 percent) to reimburse the State's General Fund for payroll expenses incurred during May and June 2009. Corrections' use of these funds in this manner is consistent with Recovery Act goals, which state that one of its main purposes is to preserve and create jobs. Also, according to the requirements for the State Fiscal Stabilization Fund Program, certain stabilization funds can be used for public safety. In its October 2009 report on jobs retained, Corrections indicated that it used these funds and an additional \$328 million received in state fiscal year 2009-10 to retain the jobs of 18,229 correctional officers working in adult prisons throughout the State.

Corrections May Have Overstated the Number of Jobs It Retained Using Stabilization Funds

As previously mentioned, federal guidelines do not currently require us to audit the information recipients must report under Section 1512 of the Recovery Act. Nevertheless, in keeping with OMB's emphasis on early communication to management, we conducted a high-level review of the methodology Corrections used to report the number of jobs retained using stabilization funds. Based on our review, we believe Corrections may have overstated how many jobs it retained when it reported its 18,229 figure to the federal government in its quarterly report submitted in October 2009. At the time of our review, the federal government defined jobs retained as an existing position that would not have been continued were it not for Recovery Act funding. By simply reporting how many correctional officers' salaries were paid with Recovery Act funding, regardless of whether these positions were truly at risk of being eliminated without federal funding, Corrections methodology is not consistent with the federal government's definition of the term "jobs retained." Moreover, Corrections had issued 3,655 layoff notices on May 15, 2009, and between 1,300 and 1,450 additional notices in August 2009, according to various media reports, for a total of about 5,000 notices. As a result, the total number of layoff notices Corrections issued is less than one-third of the 18,229 jobs that it reported to the federal government.

California Energy Resources Conservation and Development Commission: It Is Not Fully Prepared to Award and Monitor Millions in Recovery Act Funds and Lacks Controls to Prevent Their Misuse (2009-119, December 1, 2009)

The Recovery Act designated a total of \$3.1 billion for the federal Energy Program, which provides grants and technical assistance to state and U.S. territories to promote energy conservation and reduce growth of energy demand. The work to deploy new renewable-energy and energy-efficient technologies takes place in the states and is managed by the state energy offices. The state energy office for our State is the California Energy Resources Conservation and Development Commission (Energy Commission).

I previously discussed that California's Joint Legislative Audit Committee requested my office to conduct a review of California's preparedness to receive and administer Recovery Act funds for selected programs, including funds for the Energy Program. Keeping with our goal to communicate as early as possible the results of these reviews, my office reported on December 1, 2009, that the Energy Commission is not yet prepared to administer Recovery Act funding, leaving the State at risk to lose millions of federal dollars. More specifically, the report included the following information/findings related to the Energy Commission's administration of Recovery Act funds:

The Energy Commission Has Contracted for Only \$40 Million of the \$226 Million Awarded

In 2008, prior to the Recovery Act, the Energy Commission's award of federal funds for its Energy Program was about \$3 million. In April 2009 the U.S. Department of Energy began awarding Recovery Act funds to the Energy Commission that totaled \$226 million by September 2009. However, as of November 16, 2009, the Energy Commission had approved only \$51 million for Energy Program services and of that amount had entered into two contracts totaling \$40 million—\$25 million to the Department of General Services (General Services) and \$15 million to the Employment Development Department (Employment Development). The funds from these two contracts will be used to issue loans to state departments and agencies to retrofit state buildings to make them more energy efficient and to provide job skills training for workers in the areas of energy efficiency, water efficiency, and renewable energy. The contract with General Services was executed on October 5, 2009, and the contract with Employment Development was executed on November 2, 2009. As a result, except for approximately \$71,000 that the Energy Commission spent on its own administrative costs, no other Recovery Act funds had been spent as of November 16, 2009.

The Energy Commission Is Moving Slowly to Complete Tasks Needed to Award and Monitor Funds

Although the Energy Commission had access to \$113 million of its total award of \$226 million since July 2009, it has been slow to develop guidelines, issue request for proposals (RFPs), and implement the internal controls needed to properly administer the Energy Program. More specifically, the Energy Program is comprised of eight subprograms, seven of which are new and required guidelines for subrecipients to follow when providing services. The Energy Commission had adopted guidelines for only four of the eight programs as of September 30, 2009. Similarly, as of November 16, 2009, the Energy Commission had released RFPs to potential recipients for only three of the six subprograms it intends to implement that require solicitation.

Because the Recovery Act requires that funds appropriated for the Energy Program be obligated by September 30, 2010, to avoid the potential of losing federal funds, the Energy Commission will have to develop program guidelines and issue RFPs in the next 10 months. In addition, because it lacks an established system of internal controls, the risk for fraud, waste, and abuse is increased. Because the Energy Commission has made little progress in implementing its subprograms, none of the Recovery Act funds are being used to provide benefits to Californians, such as preserving or creating jobs, promoting economic recovery, and assisting those most affected by the recession. Moreover, these Recovery Act funds will not likely be awarded to subrecipients until at least April 2010 to July 2010, based on the time frames provided by the Energy Commission. As such, it is imperative that the Energy Commission adhere to its timelines and time frames for executing grants, loans, and support services contracts; otherwise, it may risk losing federal funds.

The Current Internal Control Structure Is Not Sufficient

The Energy Commission has established a committee to manage overall implementation of the Recovery Act. In addition, it has established manuals and procedures for procuring contracts requiring subprograms to obtain approval for contracts greater than \$10,000, thereby providing transparency regarding the use of Recovery Act funds.

However, the Energy Commission has acknowledged that it needs assistance to implement and administer the Recovery Act funds awarded for the Energy Program. In fact, the Energy Commission anticipates that it will have to contract for additional support services to administer the program, including services to help establish internal controls. We identified several areas in which the Energy Commission's existing internal controls are not adequate. For example, it could not demonstrate that its controls are sufficient to mitigate and minimize the risk of fraud, waste, and abuse, and to effectively monitor subrecipients' use of the Recovery Act funds. Further, we question whether the Energy Commission has sufficient staff to handle the increase in workload and whether its existing financial and operational systems can handle the additional stress associated with an increase in the volume of contracts, grants, and loans prompted by the infusion of Recovery Act funds. Finally, the Energy Commission reported that it did not have reporting mechanisms in place to collect and review the data required to meet the Recovery Act transparency requirements.

Any delay in procuring the services to establish an internal control structure to adequately address the risks of administering Recovery Act funds increases the risk of delays in implementing the subprograms, possibly hindering the Energy Commission's ability to obligate Recovery Act funds before the September 30, 2010, deadline. Alternatively, awarding these funds without having adequate systems in place increases the possibility that Recovery Act funds will not be used appropriately, heightening the potential for fraud, waste, and abuse to occur.

In this report we recommended that as soon as possible, the Energy Commission take the steps necessary to implement a system of internal controls adequate to provide assurance that Recovery Act funds will be used to meet the purposes of the act. These controls should include those necessary to collect and verify the data needed to measure and report on the results of the programs funded by the Recovery Act and to mitigate the potential for fraud, waste, and abuse. Such steps should include quickly performing the actions already planned, such as assessing the Energy Commission's controls and the capacity of its existing resources and systems, and promptly implementing all needed improvements. Further, the Energy Commission should promptly solicit proposals from entities that could provide the services allowable under the Recovery Act and should execute contracts, grants, or loan agreements with these entities.

In its initial response to the audit report, the Energy Commission agreed that additional internal controls should be implemented to meet the Recovery Act requirements and that further work is needed to finalize its preparations to disburse funds for the Energy Program. The Energy Commission pointed out that it must comply with numerous state laws and regulations, including those that require due public process for adopting regulatory requirements and others requiring it to make all decisions in an open public setting with ample opportunity for public input. According to the Energy Commission, the U.S. Department of Energy has stated California is not at risk to lose funds.

The Energy Commission submitted its 60-day response on February 1, 2010, asserting that it is strengthening its internal controls through contracting efforts and thus far it has received multiple responses to solicitations for Program Auditing and Consultant services and services for Monitoring, Evaluation, Verification and Reporting. The Energy Commission expects both contractors to start work in the March/April 2010 time frame. The Energy Commission also asserts that it has made significant progress implementing newly created programs and

awarding Recovery Act funds and its timeline for full obligation of the Recovery Act funds remains on target and within the parameters of the law.

CONCLUDING REMARKS

Thank you for the opportunity to report on California's administration of the Recovery Act funding. One general principle of the Recovery Act is that the funds be used to achieve its purposes as quickly as possible using sound and prudent management. My office will continue to provide management and those charged with governance with critical information necessary to ensure the proper administration of Recovery Act funds the federal government has made available to California. My office will also continue to monitor the corrective action taken to address the deficiencies identified in our reports and letters. However, program management and the State's administration must remain diligent in their efforts to comply with the federal requirements for these Recovery Act funds so that California receives every dollar available to Californians and that those dollars are used as efficiently and effectively as possible.

Chairman TOWNS. Thank you. Thank you so much for your statement.

Mr. Payne.

STATEMENT OF GAVIN PAYNE

Mr. PAYNE. Mr. Chairman, Madam Chairwoman, Congresswoman Napolitano and Congresswoman Richardson, I am delighted to be here today.

I bring you greetings from the State's superintendent, Jack O'Connell, who unfortunately could not be here, to the Members.

We are grateful to Congress and the President for providing these funds. Let me repeat that. We are grateful, very grateful for the Congress and the President for having supplied States with stimulus funds.

They have truly been a lifeline, especially for the California school districts during this financial crisis.

Let me give you a little context, too. When the stimulus money first came down, the Superintendent working with the Governor very consciously made a decision to shift that money from Sacramento to school districts as quickly as possible, knowing that the accountability would follow from that, but it was a conscious decision made at the time taking full advantage of the opportunity afforded by the Congress and the President.

I would say, at least for our part, from the Governor's part, loudly applauded by ourselves and often praised.

Let me give you a little bit of the picture of we have. Federal funds from stimulus money supply about six major Federal programs and a number of smaller ones. We have already received thus far nine grants, including one in which we administered to kindergarten through grade 12 a portion on behalf of the Governor's Office.

Those grants totaled about \$6 billion, as was talked about. For these nine grants, we have issued 3,800 sub-grants to 1,800 sub-recipients, which are primarily school districts, charter schools, and county offices of education.

So in the second quarter, as you heard, those sub-recipients reported creating or retaining about 34,000 jobs in K-12 alone, and about 4,000 or 5,000 in higher education.

This is the largest volume of sub-recipients and sub-grants, I think, from our fellow State agencies in California, and possibly the largest amount State agencies nationwide.

As I said, the decision was made to follow along with collecting data. For most of the education programs, the funds were part of existing State—excuse me—existing Federal programs, and the normal data collections have been our normal monitoring process.

We knew that we had the mechanisms in place to monitor those funds. The existing Federal guidelines govern all those. The one difference being, of course, the State fiscal stabilization fund, for which there are a few guidelines, or which has been the primary life line for the school districts.

Section 1512 reporting is an issue of concern for me. It now requires reporting quarterly from recipients and sub-recipients on the amount of funds that were awarded, the expenditures, the number of jobs saved or created as a result of ARRA.

To comply with this, we created a fairly quick and easy and good Web page system for collecting data from the districts. We issued a number of guidances and had Webinars all over the page, at least half a dozen times, if not more in the districts.

We had great participation by those districts, so that they were knowing what was going to be expected of them.

I think today our reporting effort has been successful, more than the quarterly reports required by the act.

An issue, of course, that you have heard about has been calculating jobs figures. We made a call to the Department of Education after the December 18th guidance came out, indicating the new methodology, which frankly, we liked, and it is much simpler to deal with. The new methodology that came out from OMB came in December 18th.

The Superintendent's call at that point was frankly, not to require districts to comply, and there were a number of factors for that. Of course, the guidance itself allowed for that. Most of it was sort of being real and on the ground on December 18th. Many school districts already shut down for the break for the holidays. Most of them or many of them shut down literally, as a means of saving money.

At the same time, just to give you a little more context, we were trying to collect from or trying to engage those districts at the same time in embracing with us an attempt to apply for Race To The Top funds. That was a very complicated period.

Also, the question for us is always reliability. If the choice for us is reliability of the data or timing of the data, we will often opt for reliability so that we do not report job numbers that could be incorrect.

For those three reasons mainly, we opted to issue the guidance around that December 18th memo and the new methodology earlier in January, and in fact, those districts are going back and completing that data.

Questions about administration and oversight. We are quite proud of working with the Governor's Office given the current budget crisis in the State of California.

We have funding guidance out. We have administered funds throughout. There was mention made of cash management, a long-standing issue that we have been dealing with very earnestly.

We have been working with the U.S. Department of Education quite actively on a high-level program to get our arms around cash management. We have been modifying our monitoring processes on other programs to comply.

We feel very confident that those systems will change and improve quite substantially this year and next year as we go.

The other piece of that puzzle is interest reimbursements from districts back to the State. We have been very active in that with the school districts and have been monitoring that quite closely as well.

Recognizing that I am almost out of time, I want to reiterate the thank you. Reiterate the fact that in the context of the time, you were the only people standing in the way of the money from the Federal Government, the only people standing in the way of sub-

stantial layoffs, and even with unfortunately, with Federal money, there were 26,000 of those layoff notices issued last March.

We are expecting another 20,000 layoff notices to be issued this year, same thing. But we are ever hopeful that we can find the resources to make that good, and make those layoffs not actually happen before the school year begins.

Again, thank you very much.

[The prepared statement of Mr. Payne follows:]

The Honorable Edolphus Towns, Chairman
U.S. House of Representatives
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

The Honorable Diane E. Watson, Chairwoman
U.S. House of Representatives
Subcommittee on Government Management, Organization and Procurement
2157 Rayburn House Office Building
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**Statement of Gavin Payne
House Committee on Oversight & Government Reform**

March 5, 2010

**California Science Center
Los Angeles, California**

Good afternoon, Chairman Towns, Chairwoman Watson, Representative Issa, Representative Bilbray and other members of this committee. I am Gavin Payne, Chief Deputy Superintendent, on behalf of State Superintendent of Public Instruction Jack O'Connell and the California Department of Education (CDE). Thank you for inviting me to share some of our accomplishments and challenges in administering the grants we have received under the American Recovery and Reinvestment Act, or ARRA.

Background

We are grateful to Congress for providing these funds. They have truly been a lifeline for school districts in California in the current fiscal crisis.

First, let me provide some background. The CDE administers \$45 billion of state and local funds, and \$7 billion of federal funds that are allocated annually to school districts. The federal funds are allocated under six major federal programs and a number of smaller ones. Under ARRA, we have received (thus far) nine grants, including one grant in which we administer the kindergarten through grade 12 (K-12) portion on behalf of the Governor's Office. These nine grants will total around \$6 billion.

For these nine grants, to date we have issued 3,800 subgrants to 1,800 subrecipients, primarily school districts, charter schools, and county offices of education. In the second

quarter, our subrecipients reported creating or retaining 34,703 jobs. This is the largest volume of subrecipients and subgrants among our fellow state agencies in California, and possibly the largest among state agencies nationwide.

We have issued subgrants for seven of the nine ARRA grants. The table below shows summary data on these seven grants (the Individuals with Disabilities Education Act (IDEA) grant column includes two grants). The table includes the higher education subrecipients, which reported through our reporting system. The jobs total above is just for the K-12 subrecipients.

ARRA Section 1512 4th Quarter Reporting Summary

Date	Individuals with Disabilities Education Act (IDEA)	Title I, Parts A and D	McHenry-Vento Homeless Children	State Fiscal Stabilization Fund	Nutrition	Child Care
No. of grants	371	1,247	168	1,600	243	171
Total sub award amount	\$1,267,972,271	\$1,027,286,572	\$13,423,277	\$3,951,198,909	\$12,859,773	\$90,750,333
Sub award disbursed	\$269,113,167	\$461,207,234	\$2,686,425	\$3,951,198,909	\$11,573,795	\$0
	21%	45%	20%	100%	90%	0%
Sub award expended	\$289,984,330	\$176,198,040	\$1,963,376	\$2,671,556,484	\$9,263,891	\$24,201,101
	23%	17%	15%	68%	72%	27%
Sub awards with zero percent expended	13%	16%	26%	10%	14%	81%
Sub awards with greater than zero and less than 50 percent expended	81%	61%	64%	48%	4%	5%
Sub awards with greater than or equal to 50 percent expended	6%	23%	10%	42%	81%	14%
Sub awards with 100 percent expended	2%	13%	4%	30%	53%	10%
Total jobs saved from effective date through December 31, 2009	5,817	5,146	45	38,924	81	40
Classified jobs saved	3,115	1,338	33	4,488	36	24
	54%	26%	73%	12%	44%	59%
Certificated	2,504	3,727	8	18,802	6	1

jobs saved	43%	72%	17%	48%	7%	2%
Vendor jobs saved	198	81	5	283	39	15
	3%	2%	10%	1%	48%	38%
Institutions of Higher Education jobs saved	0	0	0	15,351	0	0
	0%	0%	0%	39%	0%	0%
Sub award effective date	02/17/09	02/17/09	02/17/09	04/17/09	03/01/09	03/01/09

I will now address the issues the committee wishes us to address.

Use of ARRA Funds

We have not collected any data, other than jobs data, on how local educational agencies and other subrecipients have used ARRA funds but will do so as part of the annual fiscal reporting process. We note that eight of the nine ARRA grants we administer are essentially augmentations to existing federal programs, and the funds must be spent for designated purposes. With respect to the State Fiscal Stabilization Fund (SFSF), the funds are very flexible.

Four of our grants (SFSF, Child Care, and the two IDEA grants) permit spending on infrastructure if the subrecipient certifies that the project is an appropriate use of taxpayer money and complies with specified other requirements. Thus far, a small portion of the SFSF and Child Care grants have been spent for infrastructure. Lists of the projects funded are available at the CDE ARRA SFSF Web page at <http://www.cde.ca.gov/ar/sf/documents/alph.doc> and CDE ARRA Early Childhood and Development Block Grant Web page at <http://www.cde.ca.gov/ar/ec/documents/alphalistingforccdf.doc>.

Section 1512 Reporting

Section 1512 of ARRA requires reporting quarterly from recipients and subrecipients on, among other things, the amount of funds awarded, the expenditures, and the number of jobs saved or created as a result of the ARRA. To comply with this requirement, we developed a Web-based system for collecting this data from our subrecipients. We issued guidance, issued passwords, and followed up with entities that did not report initially. We then submitted our data to the system developed by the Governor's Office, which in turn submitted the data to the federal site, recovery.gov. Our reporting effort has been successful—99 percent of our subrecipients have submitted data for the quarterly reports required by the act.

A major issue in reporting has been the calculation of the jobs figures. As you may know, the federal Office of Management and Budget (OMB) issued guidance in June 2009 that outlined how recipients and subrecipients were to calculate the number of

jobs. We in turn issued guidance to our subrecipients on September 4, 2009, on how to calculate jobs in the school context. We used that methodology in the first quarter, for reports that were due to OMB in October 2009.

OMB issued revised guidance for calculating jobs on December 18, 2009. We welcomed this change because the new methodology is simpler and more straightforward than the original methodology. We notified our subrecipients on January 6, 2010, of the change in methodology. However, we continued to use the original methodology in the second quarter for data due to OMB in January 2010, as was permitted by OMB.

We are currently collecting revised second-quarter jobs data, using the new methodology, for submission to OMB by March 15. Our revised guidance is posted on the CDE ARRA Funding Information and Reporting Requirements Web page at <http://www.cde.ca.gov/ar/rr/datafldshelp.asp>.

Why did we defer converting to the new jobs methodology until now? Why did we continue to use the original methodology instead of changing to the new methodology for the second quarter submission in January?

First, to require our subrecipients to re-do the reporting that they had just completed based on this late change in guidance would impose an unacceptable burden. We were not willing to ask school districts and other subrecipients to drop everything else they were doing to comply with this new requirement. Our school districts were and are struggling with \$17 billion in budget cuts over the last two years. In addition, in early January they were working on two major deadlines related to ARRA. Staff at both the state and local levels were working long hours in connection with these projects. The first deadline was for the SFSF Phase II application due January 11, and the second was the Race to the Top application, which was due January 19. In connection with the latter application, local educational agencies had to review the Memorandum of Understanding and determine whether to participate in the Race to the Top program.

Second, it would have been impossible for us to obtain revisions by the deadline. On December 18, most school districts were already closed for the holidays. Most literally close down—there's no one there to receive e-mails or answer the phone. So even if we had tried, we could not have gotten anyone's attention until the first week of January. Then it takes us about a week to remind non-reporters, review the data, and correct errors. It takes at least another week to submit the data to our state system and for the state system to get it approved at the federal level. We simply could not obtain new data and get it into the federal system by the January 15 deadline. We had already collected jobs data from our subrecipients before the holidays, using the original methodology.

Why did it take so long to actually submit the data? Here are some of the challenges we faced in the first two reporting periods:

- In the second cycle, the OMB decided to validate congressional district (CD) coding. In some situations, the CD in the federal database was simply wrong and we had to spend a lot of time resolving the issue. We also had hundreds of errors because we had advised subrecipients to use the CD that matched their area the best, while OMB wanted us to use the CD that matched the zip+4 of the subrecipient headquarters. We did not have access to the database that OMB used to perform its matches, and do not understand why, if OMB had a database to determine the correct CD, why OMB could not have added the CD information itself.
- In the first cycle, we had problems with DUNS numbers, as did many other states. These are universal numbers issued by Dun&Bradstreet and OMB required that subrecipients have them. Many subrecipients had to go through the process to get a DUNS number before reporting. We had *no* tools to validate DUNS numbers; we had to wait to see if OMB rejected our data—which they did if a DUNS number was wrong. When we received a rejection we called our subrecipients to troubleshoot issues with DUNS numbers. This took an incredible amount of staff time.

It turned out that about two-thirds of the DUNS numbers identified as invalid were actually valid. When we followed up on the “errors,” in most cases the subrecipients contacted Dun&Bradstreet and were assured that the records were valid, current, and complete. It turned out that OMB did not have access to a current list of valid DUNS numbers. (We also were concerned that when some of our subrecipients called Dun&Bradstreet to try to figure out the problem, more than once were subjected to sales pitches for Dun&Bradstreet products such as credit checks.)

Finally, both the federal Department of Education (ED) and OMB had issued guidance that permitted us to delay implementing the new methodology. The Recovery and Accountability Transparency Board had issued verbal statements requiring implementation of the new methodology immediately. However, in fact, the written guidance acknowledged that in some cases it would be impossible to obtain data using the new methodology. With 1,800 subrecipients and 3,800 subgrants, we believe that if it were impossible anywhere, it was impossible in California. We note that there are other states that submitted jobs data calculated using the old methodology. Some, but not all, are collecting revised data for submission in March. Texas, Washington, Ohio, and Illinois all used the old methodology. Texas, Ohio, and Illinois intend to update their data in the March correction period.

As an example of the guidance we received, please see the OMB December 18, 2009, guidance, at the OMB Web site at <http://www.whitehouse.gov/omb/asset.aspx?AssetId=2182> (Outside Source). Page 2 of the cover letter states “Recipients should implement the updated methodology to the greatest extent possible for the January reporting period. Federal agencies should consider the efforts put forth and the complexities and challenges of the recipients when

reviewing compliance with the Federal awards." Page 12 of the guidance itself says "Effective February 2, 2010, the FederalReporting.gov solution will be open for corrections of all data submitted for the quarter ending December 31, 2009. Recipients will have the ability to make correction up until the start of the next reporting period. For example, from February 2, 2010 through March 31, 2010, recipients will have the ability to correct data for the quarter ending December 31, 2009."

Administration and Oversight of Recovery Funded Projects within CDE, and Effect of Budget Shortfalls

I am proud of the job we have done in administering these funds, given the current budget crisis in the state of California. We have issued subgrants quickly so the funds have been put to work quickly at the local level. We have issued voluminous guidance to our subrecipients and held numerous conference calls and webinars regarding use of the funds. We have posted numerous documents, including federal guidance and our own guidance, on our Web site. Finally, we have complied with federal reporting requirements—as indicated earlier, 99 percent of our subrecipients have submitted data for the quarterly reports required by the act.

You should know that in administering these nine grants totaling \$6 billion, we have not received *any* additional staff or funds to perform necessary administrative functions. None. Our reporting effort is being operated by two staff redirected temporarily from their usual jobs, plus time from our technology division for system development. We are still working to identify how we can staff some of our oversight efforts.

Two specific issues that have been raised by auditors are subrecipient monitoring and cash management.

By monitoring, I mean the set of activities undertaken by state staff to review local programs and expenditures to make sure they are effective and appropriate for the funding source, and that they comply with federal rules.

Eight of the nine ARRA grants we are administering are essentially augmentations to existing federal programs. We are monitoring those eight programs in conjunction with monitoring of the parallel well-established programs. While our regular monitoring procedures can always be improved, and in fact we are currently implementing improvements related to use of risk-based approaches and fiscal issues, we believe the monitoring we are doing is appropriate and adequate.

The ninth program is the SFSF, which provides funds to stabilize state and local budgets. We are administering the K–12 portion of the program on behalf of the Governor's Office. This is a new program and the funds can be used for virtually any purpose, although there are some restrictions. There is no programmatic monitoring needed because, as ED guidance states, there are no specific "SFSF activities." With respect to fiscal monitoring, in February 2010 the ED issued guidance regarding its

expectations for state monitoring of local programs. In response to that guidance, we are currently developing a monitoring plan for these funds. It is due March 12.

We note that, again, resources will be an issue in establishing a monitoring program for the SFSF. As I indicated before, we are working to identify how we can staff our monitoring efforts. None of the K–12 funds available through the SFSF can be used for administration. There is another portion of the funding that can be used for this purpose (the Government Services Fund portion), but the state Department of Finance allocated all the Government Services Fund to Corrections.

With respect to cash management, we have issued letters to local educational agencies regarding remittance of interest they earn on federal funds, and they have been submitting interest payments to us. We have also initiated changes to our processes to consider the amount of cash on hand in issuing payments. Our enhanced fiscal monitoring procedures will include review of compliance with these requirements.

Measures to Prevent Waste, Fraud, and Abuse

To prevent waste, fraud, and abuse, we have posted information on our CDE ARRA Web site alerting subrecipients to the issue and providing a link to resources to report suspected incidents. The same link contains information on whistleblower protections. The state Inspector General has also posted information on this issue. We also have placed posters around our department headquarters building.

Our primary protection against waste, fraud, and abuse is the nature of the programs funded by ARRA. As indicated earlier, eight of the nine grants are essentially augmentations of existing programs with well-established rules on use of funds. The subrecipients are virtually all local educational agencies with experience operating these programs. The ninth program, SFSF, is intended to stabilize local budgets—and with the huge budget cuts implemented recently in California, it is likely that there is intense scrutiny of these funds locally. Local educational agencies need to use these funds to avoid teacher layoffs. Two pieces of evidence for this conclusion are (1) the large number of certificated jobs saved (18,802) and (2) the small percentage of the funds spent on infrastructure (\$7.2 million out of \$2.5 billion allocated to K–12 agencies).

Conclusion

In conclusion, we have done a great job in administering these funds, within incredible fiscal constraints. I would be happy to answer any questions.

Chairman TOWNS. Thank you very much. We are going to take a 10-minute break, and then we will be right back.

[Recess.]

Chairman TOWNS. Let me thank all of you for your testimony. I really found it to be very informative.

What I am going to do is I am going to yield my 5 minutes to the gentlewoman from California, and we will just go right down the line, and then at the end, I will have some comments.

Ms. WATSON. Thank you so much, Mr. Chairman. I want to apologize. Our mayor did have to leave. I think he indicated that he could only stay until 2:30.

The city of Los Angeles is in serious trouble and has a huge deficit, so we do hope that questions are forwarded on to him, and there will be, I am sure, an immediate response.

One of the words that I heard him repeat over and over again was "flexibility." Because so much of the money that has come off of the stimulus cannot be used in certain areas and categories. He wants to protect the police, as I mentioned, and firefighters. I would be interested in getting his responses to those questions.

In reviewing the first two rounds of Recovery Act recipient reporting, committee staff learned that despite the efforts of the Office of Management and Budget [OMB], the Recovery Accountability and Transparency Board is the central agency to make sure that recipients knew what they were required to report occurred.

For example, the Federal Highway Administration released its own job estimation guidance during the first reporting cycle. Even after the OMB released updated guidance for calculating jobs, FHFA again, offered a different model mere days before the end of the second reporting cycle.

Mr. Schultz, which jobs model did California use for reporting its highway numbers during the second reporting cycle, and what is the difference between the two models, and how much do the two estimates vary?

Then I will go to Ms. Calbom. Let me just ask you, are there other instances where OMB and agency Recovery Act guidance differ? And what can be done to ensure that the OMB and the agencies work in concert, so that recipients can report accurate data, rather than spend their time deciphering what entities to follow?

Mr. Schultz.

Mr. SCHULTZ. Very much appreciate your question. In the second quarterly reporting, California used the new guidance for all of its agencies that came out December 18th. We were told a couple of days before the reporting period that FHWA would like us to use a different calculation.

We had conversations both in Washington and with the regional office. Given the concern that we had, because we were getting conflicting guidance, we had not seen anything official, and FHWA would say well, we should do this.

I wrote the head of OMB and other officials to say that California was going to follow the guidance that was put out country-wide by OMB. So in the first reporting period, I think as the committee remembers, there was a job calculation that was based on jobs created or saved.

The Governor of this State, many Governors, and the National Governors Association, I believe, and many Members of Congress, did not think that was an accurate predictor of, if you will, number of jobs created in the country.

So we lobbied very actively through the National Governors Association and with Congress people, and were able to get that second quarter calculation changed to jobs funded, which is a better calculation, if you will.

So we complied with both, if you will, the Federal Government guidance in the first, which is created or saved. The second, which is funded, which means, I think to your point, it is apples and oranges.

With these continuous shifts, we worked very much in partnership, but we had been in almost every program underscoring to the Federal Government that we need one set of guidance, as opposed to various agencies getting conflicting information.

Ms. WATSON. I think we hear that. [Laughter.]

Ms. CALBOM. And that is certainly something that GAO has recommended, too, or we did recommend, and OMB adopted our recommendation, to simplify and to provide some very, specific guidance on what do you mean by equivalence.

Because people were applying the guidance but in different ways. They were interpreting it differently, in the first round, in particular.

As far as your question on FHWA and OMB, there were some issues there. My understanding is they have worked those out. They have had some discussions back in D.C. and have worked those out. So hopefully, we won't run into those problems. I know that it caused some extra problems, certainly for you guys in getting kind of red flags on the numbers when perhaps they did not need to be getting the flags and had to do some research.

I think this in an evolving process. It is going to get better and better as we go along. Certainly, the simplification of the jobs calculation approach is going to help a lot.

Mr. SCHULTZ. I just heard from a member of our staff the State stimulus directors are meeting in Washington and I am here. Someone went on my behalf, and OMB did announce today that the OMB rules that we followed are in place, so that FHWA should not be giving conflicting guidance.

Ms. WATSON. I just want all of you to understand the reason why we are having this hearing out here, riding in the seat of where we are highly challenged, is so that we can take your inputs back.

We have not had this kind of a recession since the 1930's, and at that time, people jumped out the windows. We are the safety net.

And so, the stimulus—I sit on the Oversight Committee, and I head a subcommittee, and I remember—the Chair will remember, it was—you were not Chair then, but it was September 17, 2008 that Paulson came to us and said that the sky is falling, the house is on fire, and so on. We moved on it very, very quickly to put the fire out.

So the stimulus and Recovery Act, it was put out there. And so now we are trying to do it right. Anything you want to tell us, this is your opportunity.

I would like to move on. Federal agencies are responsible for reviewing recipient data on the use of the Recovery Act funds in order to identify the data errors. Likewise, recipients who delegate reporting responsibilities to a sub-recipient must review the sub-recipient's data to flag potential errors.

Mr. Payne.

Mr. PAYNE. Yes, ma'am.

Ms. WATSON. What procedures did the California Department of Education utilize in its reviews of school district data?

Mr. PAYNE. Well, as I mentioned, most of the reviews of school district data happened at the same time that we were doing ongoing monitoring of those exact programs.

The first thing I would acknowledge is that any monitoring program can always use improvement. We are actively engaged in improving those systems. We are engaged with the U.S. Department of Education to put in place sort of risk based systems of monitoring that we will be rolling out rather soon from our department with those districts, and moving forward.

We are taking quite seriously, especially the remittance of interest from early grants of the stimulus funds. As I mentioned in my comments, my prepared comments, we are taking very seriously our obligations under cash management principles.

Ms. WATSON. Great. I would like to get back to Mr. Schultz. California uses a centralized recipient reporting system. What procedures did your office utilize to review the recipient data?

Mr. SCHULTZ. Significant. We have put in place something that is called the CAT system, which was put together to be a data base, which taking all of the information from the recipients and the sub-recipients, department by department, and putting it into the system, and scrubbing, very specifically, all of the data.

If you sort of travel it down and you take Caltrans, the Department of Education, Caltrans works with more than 400 local transit agencies. They, themselves, have over 900 individual contracts that make up that \$2.5 million.

We have quality control data reporting managers in our computerized center to take all of that data, go through the data, and bring it back to the department when there is an error, and literally work record by record in order to ensure that the data that is being put out is correct.

If we have a problem-in terms of the Federal Government comes back and says "no, this zip code plus four was not right" or some of those other issues—we are on the department like a bee on honey. We go back and we literally go contract by contract, award by award, to do that.

In addition, we have done our own readiness reviews and spot checks to make sure on an ongoing basis, in addition to working with the auditors and with Laura's office as well, to make sure that there are not system problems, systemic problems in those departments.

It is a whole series of things that we are continuously doing.

Ms. WATSON. What I try to inform my colleagues of all the time is that California is like three different States. That is north, central and southern California. Trying to monitor and be sure that waste, fraud, and abuse does not occur, is a real serious challenge.

Now, I was in the Senate when Jerry Brown got rid of our planes, you know, Mr. Chairman, to be able to send inspectors down and people to oversee how things are going.

We did not have our private jets any more, so we had to use commercial airlines, and he really cut down on the travel.

We saw, Laura, waste occurring, and we had no one to oversee it. So can I direct to you, what have you learned in your position now that we need to be aware of as we deal with these funds?

Ms. CHICK. Congresswoman, I would say what I have seen at the very front end, and as I interviewed each department that was getting recovery funds and asked what is your plan to oversee these dollars, many of the managers said oh, you know, we are used to getting Federal money, we are going to do what we have always done, which caused me to catch my breath.

Because I understand very clearly that the President and Congress has said to us look, we are giving you more money than ever before. We want you to spend it faster than ever before, but we want you to spend it better than ever before. This is at a time when government has less resources than ever before. So, it is a challenge. It is a real challenge.

What concerns me the most is once the money leaves the State and is going out there—all my life has been in an elected office at the local level, so I carefully listened to the mayors saying they want more flexibility.

But we also have to have more oversight. Because quite frankly, the dollars that concern me the most are not the dollars in State government. It is once they leave State government. And I am not criticizing any one department at the State level. I do not think our scrutinizing of dollars that we give out, State of California gives out, is robust, at all.

My eyes are especially on the dollars that have left the State. BSA is doing an outstanding job getting State departments to be in better shape. What is called the “sub-recipient monitoring” is not robust enough.

In terms of dollars for oversight, it is always the money that is cut first, because it is not about the direct delivery of services. It is about watching over money. But the money that is spent on oversight usually more than pays for itself, by preventing problems or finding them and collecting money that has been misspent or inappropriately misspent.

I wish there was some way for us in government to come up with that magic formula that says for every program created, X percent should be set aside specifically for oversight.

I would volunteer at any moment to come to Washington to speak to the Senate who has not acted on your bill, Congressman Towns, to say, you are asking us to spend this better than ever before, and my hope is when the recovery dollars are over, one of the things that is left behind are better operations of government at every level, including better oversight, and better oversight will deliver better operations.

Chairman TOWNS. The gentlewoman’s time has expired. We could do another round, but let me now yield to Mrs. Napolitano.

Mrs. NAPOLITANO. Thank you, Mr. Chairman. It is just a great dialog. I am very pleased that this is all coming out.

I have some specific questions for Ms. Calbom. Where we have—I am going back to the High Speed Rail Authority—where we find not only that they have employed over 100 and some odd consultants and spending a lot of money that they do not even have the ability to actually build yet, so they do not have a lot of the things done, like right-of-way acquisitions and all of that good stuff, what is happening?

Who is looking over their shoulder to ensure that money that was given to California for that specific purpose is not being misspent or abused?

Ms. CALBOM. That is an area that our California Recovery Act team has not looked at, but back in Washington, DC, we have teams that are looking at kind of the overall High Speed Rail issue.

I know in particular they are looking at the oversight that the Federal Railways Administration is to cover. It is a new role for them.

So whether or not they can do the oversight they need, but then it has to, of course, trickle down, you know, at the local level because it is a lot of money.

Again, we have not looked at that, so I do not have specifics—

Mrs. NAPOLITANO. Nobody is looking at that?

Ms. Howle.

Ms. HOWLE. Congresswoman, we actually are currently auditing the High Speed Rail Authority. We were requested by the Joint Legislative Audit Committee, which was provided in the legislature, to audit the High Speed Rail Authority.

We are also included in bond language, to continue to monitor any bonds. Certainly, the voters of California approved the major bond initiative last fall.

We will be issuing a report on, and looking at use of consultants. Looking at their business plan. Looking at any strategic plan. We will be issuing that report in late April of this year. We would be happy to share that with this committee.

Mrs. NAPOLITANO. Let's just focus on that. What are you going to do once you issue the recommendations?

Ms. HOWLE. Well, I would like to talk about the followup process—

Mrs. NAPOLITANO. Let me stop you for a second. I am telling you that one was issued a very bad audit report, and they have totally ignored it, and nobody is going after them. They are wasting taxpayer money, and nobody is doing anything about it at the State level.

Ms. HOWLE. Well, when we issue audit reports, we have a follow-up process. Those entities that we audit are required to report back to my office 60 days, 6 months, 1 year. What I do is I share that information with the legislature, and the legislature typically has oversight hearings. In fact, we are going to have—

Mrs. NAPOLITANO. Unfortunately, it's the fox in the hen house. Sorry.

Ms. HOWLE. I was going to say, when we issued the report on the State energy program, both the joint legislative audit committee and the budget committees called the administration before the committee and asked for progress reporting. It is not like the audit is done, we made recommendations, and no one pays attention.

There is a continuous followup process to make sure that recommendations that are made are paid attention to and implemented.

Mrs. NAPOLITANO. Apparently, in this case, they are not being paid attention to. Nobody that I know of has even contacted any of the local cities to ensure that they are following the recommendations.

Ms. HOWLE. This is an audit at the local level?

Mrs. NAPOLITANO. Anyway, that is one of the things.

And too, Ms. Calbom, when you do your request for proposals, I call them requests for proposals, for bids, do you specify reporting back from the vendors, whether they are vendor, new hire's, re-hire's, or retained jobs, because you were saying that they do not tell you. You were going back to request information from them for the stimulus effect on jobs and hire's.

Ms. CALBOM. What I was mentioning is, if I am understanding your question, is the Department of Education was not reporting the vendor jobs. Is that the issue?

Mrs. NAPOLITANO. Right, because those are other jobs created.

Ms. CALBOM. Yes. That would be the kind of jobs basically where a school district might enter into a contract with a vendor to provide some direct training, for example.

Mrs. NAPOLITANO. You are getting that information up front? In other words, when you issue out the money, did you at that same point ask for information/feedback for reporting on those specific things to keep from going back and asking the questions from them?

Ms. CALBOM. Well, that is something—we are the auditors. We are not the ones that would do that. What we have told the department and some of the school districts that we have talked to that had a number of contracts out there is that if you can put some language in the contract up front, which we do you see other agencies require them, but we did not see the school districts doing this, but if you put language in the contract up front that requires those vendors to do the jobs reporting and the other requirements under ARRA, then it happens automatically.

Right now what is happening is the school districts are having to scramble, call vendors, do a survey. The ones we have talked to so far—we will be working with Mr. Payne and others at CDE.

They have told us in the future now, they are going to put language specifically in their contracts that requires the vendors to report the jobs. So hopefully, we have kind of nipped it in the bud, but there is some more work that needs to be done there.

Mrs. NAPOLITANO. Just what Ms. Howle and I were talking about, California received the major portion of \$135 million stimulus funding for expansion of 516, recycle water projects. Those are critical.

Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much. I now yield my 5 minutes to the gentlewoman from California.

Ms. RICHARDSON. Thank you, Mr. Chairman. I am going to ask if you would allow us permission to revise and extend our remarks.

Chairman TOWNS. Yes.

Ms. RICHARDSON. And also, did you give permission that any questions that we were not able to get answers for from today, that the panelists will give us answers in writing?

Ms. WATSON. Yes. I sure did, yes.

Ms. RICHARDSON. Thank you, sir.

My staff told me I was a little hard and I said you know, in Washington, you have no idea what it is like where we work. For any of you, I apologize. It is just we are used to limited time. We have to get the answers to the questions, and these are big issues.

We hope we are not throwing any of you off. That is certainly not my intention.

Mr. SCHULTZ. I spent 18 years in D.C. I know exactly what you are talking about.

Ms. RICHARDSON. All right. OK. My first question is for Ms. Howle or Ms. Chick. Caltrans originally lacked adequate internal controls. It has improved its procedures to better ensure that it disburses Federal funds for local agencies only for reasonable costs and work claims.

However, according to the same report, Caltrans has not completed any of their process reviews, the main method for determining if they are complying with local or Federal law.

Are you aware of that? Are you following up on it?

Ms. HOWLE. The first part of your question, I was aware of. That was an issue that we raised in the report that we issued in December. It is my understanding that Caltrans modified its practices as of September 2009.

When we go back in, which will be relatively soon, we will follow-up with any previous findings to confirm that they are following those practices.

The second half of your question, I am not familiar with that concern.

Ms. RICHARDSON. OK. If you could followup, I would appreciate it.

I can give you my next one between the two of you, you and Ms. Chick.

Ms. Howle, particularly regarding education, as I said, I had approached the chairman because I was quite concerned with what is happening with education.

Let me start off with Ms. Calbom. I seem to recall when we first went to do the recovery, Governor Schwarzenegger came to Washington. There was a concern that California was going to get a certain amount of money, and he made various commitments. Do you remember what that was all about?

Ms. CALBOM. Can you be a little more specific? Commitments about?

Ms. RICHARDSON. I believe that there was a different way that the Governor was proposing to use some of the funds. The President originally was planning on holding some funds, and then we went ahead and did it. Are you familiar with that?

Ms. CALBOM. No. I am not sure what that was about,

Ms. RICHARDSON. I will supply it in writing.

Coming back to my question, Ms. Howle and Mr. Payne, could you please supply to this body a report based upon education K through 12 and higher ed, what have been the salaries over the

last 12 to 24 months, what has been the bonuses, and where have been the cuts?

From everything that I am reading, I am hearing teacher positions are on the line. What else is going on? I guess what my impression was, with all the money that was coming, that was supposed to help stabilize, it does not seem like it is much better. It seems like it is about the same.

If you could really help us with a subsequent, very detailed report of what has happened specifically with education, and some real hard numbers, that would be very helpful. That is K through 12, Cal State, UC, all of it.

My next question is weatherization. Ms. Howle, you said that there were no agencies in Los Angeles that could cover it, and it was tragic. Well, yesterday, I met with Derrick Simpson, who is the head of the Long Beach Community Action Partnership, regarding a project his organization applied for funding with the Recovery Act dollars through the Community Services Development Fund.

His organization received the RFP in July—I am sorry—received the contract in July, signed the contract in August, and although they began providing services and everything in July, they did not receive any funding until December.

In addition to that, weatherization, they applied in junction with the Job Corps. Both of those organizations have a long history of doing work. And yet, they were recently told in late December that “oh, now all the RFP work is done,” that in 6 months, hopefully, and they were in the top three. It went to the original provider.

I will tell you, that is not what the recovery dollars were for. If you noticed the question that I asked the mayors, the question was what new and preserved jobs have you done?

Many of us, although we wanted to help people save their current jobs, we were also trying to decrease unemployment. If all we got out of this was the jobs that we saved, and we have not addressed the growing unemployment, we are still going to have some big problems.

I’d like to ask you if you could go back and look at that weatherization contract. Look at who finally got it, and why was it not that any of these local groups who were working, very well respected, suddenly after going through the whole process for 6 months, were now told “OK, we are not going to do that, we are just going to give it to so and so?” That was not the point.

I think the results show that you failed, in terms of adequately disbursing the weatherization funds. I do not know if it is out of panic, “oh, we did not get it done, let’s just use whoever we had,” after you have already done this other work.

Mr. SCHULTZ. I think there is a number—we can provide you a chronology and all that information, if you would like. I think the original strategy was given the growth in the program, was to go with the existing providers as much as possible in the 42 areas, if you will. There are 36 contracts in place.

I think what happened during that process, and it does raise the point that you do, that there were a number of those existing providers who said we are not interested in doing ARRA. Part of that had to do with one, either the Recovery Act paperwork; two, the

Davis-Bacon prevailing wage requirements, and some that were on sort of probation, if you will.

I think that we moved into a phase where—yesterday, for example, I was on the phone with a couple of people from the construction and building trades, because the question was, we have programs. We are absolutely happy to come out and be sub-providers.

I was asking our folks why did we not go there first, and the issue was about the existing providers. There is one area of L.A. that there will now be sort of a bifurcated RFP. I think that may be the instance that you are talking about. Part of that is the way that the contracting went, in short, the contractors would not be ready for the ARRA piece until August 2010, when there is a deadline of 30 percent at the end of September.

The providers that did bid on that occasion will get to bid on the existing program. They just will not be able to bid on the ARRA.

I am happy to write up and give you a section-by-section accounting, whether that is the one or another one.

But the program overall is in a vastly different place than it was, that the Auditor and I were talking about. Those remaining areas are sort of being closed up, so that to the point that we have 94 percent of all of the contracts that need to be done, that represents 94 percent of the homes to be done.

I am happy to provide that.

Ms. RICHARDSON. Mr. Chairman, if I could get 30 last seconds.

Chairman TOWNS. I would be delighted to give the gentlewoman an additional 30 seconds.

Ms. RICHARDSON. Thank you, Mr. Chairman.

Ms. Chick, the pace of the Federal outlay for California highway projects continues to be slower than the national average. In addition to that, when we look at the maintenance of effort, and it is one of the worst budget deficits in the Nation, it is questionable whether California and its localities will be able to meet its MOE obligations.

Under these circumstances and allocations, do you think California can do it?

Ms. CHICK. I would defer to the Chair of the Recovery Task Force on that, because it is not an area of expertise at this time for me. He is nodding his head that we will meet those obligations.

What I cannot answer is how. Before I turn it over to him, in terms of the shovel ready and moving quick, I think one of things that we absolutely have seen is an underscoring of our knowledge that government does not move quickly.

One of the things I hope comes out of this is a laundry list of all of the steps that projects have to go through, and our understanding in looking at the timeline attached to each one, and looking for—not getting rid of regulations and important policy goals, but how does government move things more quickly, as we do when there are earthquakes and nature-made disasters.

How do we translate that kind of expediting and working together to a man-made disaster of the type that is facing us today?

I do have to turn to the Chair of the Task Force.

Mr. SCHULTZ. It has been both in GAO and a little bit, I think, in the State Auditor's report, an issue. We have gone back and we

will be submitting a revised maintenance of effort certification. We are 100 percent confident that we will be able to meet it.

Ms. RICHARDSON. I hope so.

Mr. SCHULTZ. I am happy to provide you with complete information, if you like.

Ms. RICHARDSON. Thank you.

Chairman TOWNS. Thank you very much. The Oversight Committee had a hearing, and we learned that priority is to be given to economically distressed areas, despite a clear mandate.

As a result, the Secretary of Transportation, Ray LaHood, and Federal Highway Administration Director, Victor Mendez, worked with me to draft guidance which addressed this issue.

It has come to my attention that when the new guidance was applied in California, the numbers of counties considered distressed became all counties. That appears to be a way to get around the guidelines.

Ms. Calbom, is California simply misinterpreting DOT guidance, applying its own formula, or is it something that is not clear?

Ms. CALBOM. Well, I think that is something that they are continuing to work with the Department of Transportation on back in Washington, and Mr. Schultz can speak to that.

At least in our discussions with Caltrans, you know, they told us that what they really did at the very beginning was take a look at all different aspects of the requirements. I think one of the big ones they focused on was things that could be completed within 3 years.

Their comment to us was, you know, even if we tightened up on this guidance, we think, because we really look to this ability to get the projects done, we had to go with the ones that were there and ready to go, and that could be completed without the timeframes.

They told us anyway that would not have changed their allocation of the funds. That is something, you know, they are continuing to have discussions back in Washington with the Department.

Mr. SCHULTZ. I think, Mr. Chairman, there are two issues at play in the specific instance that you are talking about. There is the State confidentiality laws, that with the four new criteria that have come out, are not apples to oranges, if you will, in the way that the Federal Department of Transportation wants to do this.

We are trying to work out a better way to define it, so that there is a more accurate accounting of which counties, specifically, are economically distressed.

We also have a number of programs where the requirement may be say 20 percent. We had some individual policies to try and spread the stimulus dollars to more economically distressed/disadvantaged communities than the Recovery Act requires.

The specific instance that you are talking about, we are in discussions about how to better implement that provision.

Chairman TOWNS. You know, I think Ms. Richardson sort of said let's have plain talk, saying we push it too far.

Well, let me tell you what it seems to me. That there is something rotten in the cotton. That is what it seems to me. You know what I mean? That just does not add up.

All of a sudden, all of the counties are now distressed, I mean, but before they were not. That does not hit you as being a bit funny, Mr. Schultz?

Mr. SCHULTZ. I think it hits me as there is a significant problem, and we have been involved with discussions at the Department of Transportation to try and get to the bottom of it. We will provide that information to the committee; yes.

Chairman TOWNS. If we can help you get to the bottom of it, we would like to do so. I will be honest with you, I am disturbed by it, because all of a sudden, all the counties, and that to me just does not seem right. You know, I am from New York, so maybe—[laughter.]

Mr. SCHULTZ. I understood it. It is a very serious issue. We have taken it very seriously. I have looked through all of this criteria, and we are in an ongoing discussion with them to appropriately define it. There is a State law in terms of the information that is not available into the calculation, and we are trying to work through what we could use as a proxy.

Chairman TOWNS. Ms. Calbom, if you could help them, I would certainly appreciate it. If you could look and see if you could give them some suggestions, because it seems they need some help on this.

Ms. CALBOM. Will do.

Chairman TOWNS. Let me just talk about the Recovery Act, the whole thing in terms of fraud, waste, and abuse. Never before in the history of the country have we sent out this kind of money so quickly. Of course, some of the experts, the people that I respect, are saying out of \$767 billion, whatever money out, that \$55 billion was going to waste, fraud, and abuse.

Now, that to me is a lot of waste, lots of fraud, and a lot of abuse. What can we do to cut down on that number?

Because is that not frightening, saying that \$55 billion is going to be wasted? They did not even talk about stupid spending. They did not mention that. [Laughter.]

What can we do as legislators to be able to cut down on that?

Now, Congressman Issa and I have this legislation, as you know. The point is as indicated, the Senate, for some reason, they do not agree with us or they will not act, or whatever. I don't know what their problem is over there. The point is I would like to get your input.

Ms. CALBOM. It is hard to come up with ways to improve oversight on recovery dollars without giving some resources to the sub-recipients and local governments, county and city.

It is not all about more resources. I think some of it is also about how we watch the money. For instance, I will just give you a couple quick examples that come to my mind.

I have noticed at the State level, inside State departments that are watching Federal dollars, you know, relationships buildup between the monitors and the monitees, between the agencies.

It develops a culture, kind of get along, go along. You know, you do not want to rock the boat. You do not want to make people upset. You do not want to cause problems. You do not want to air dirty laundry.

One of the things that State government could do differently is to make sure that monitors get moved around, and are not monitoring the same agency year after year. They do not have to be re-trained, just move them to monitor different agencies.

Another thing that needs to change, and the Governor's hard at work on it, is to put real meaning into transparency. For instance, the first few weeks I was in Sacramento, I was talking to State departments, and one of them mentioned that they have auditors, and I leaned across the table and said "well, that is great. Can I go online to see the audits?" I must have said something bad, because they recoiled. They said "we do not put our reports online."

Well, the Governor almost immediately issued an executive order to start building up his transparency Web site, and said "you know all those reports sitting in your drawers? I want them online where people can see. Because, it is daylight and part of the Recovery Act is about transparency. When you put the light of day on things, it is amazing what starts to happen."

So, Congressman, that is very much why I am blasting my reports out as much as I can in terms of the media as a partner. Because so often when we shove things down, how do the other work investment boards up and down the State become aware of problems and things that they should do differently, if I am, not sharing what I found at that first work investment board that I saw?

I am not giving you specific things that your committee can do, because I sure would like that bill passed out of the Senate, but I think the calling for robust accountability, not just at the end of the day, but all the way through, and having hearings like this, and asking tough questions, it goes a long, long way to forcing State and local government to show you that we are spending Federal dollars well.

Chairman TOWNS. All right. Let me ask you this, Mr. Payne. You know, I think I need to preface this by saying in New York City, the mayor appoints the Chancellor of the schools. The mayor is in charge and has the overall responsibility for education. If there is any reason that they are not doing it right, the people can vote the mayor out. That kind of thing.

Here we have a situation where that is not the case. Since the California Department of Education does not fall under the auspices of the Governor, and outside the authority of both the Recovery IG and the Recovery Task Force, what exact methods are in place to deter any waste, fraud, and abuse with the recovery dollars? How do we avoid this?

Mr. PAYNE. It is a great question and a legitimate question. Although we do not fall under the specific guidelines, specifically under the Governor's Office, we do have a history of working with the Governor's Office on these exact issues.

On our Web site, we have posted a lot of guidance and data for school districts to pull down. We have sent, proactively, data to them about waste, fraud, and abuse. We have conducted Webinars. Ms. Chick has done exactly the same work and has done the communications as well.

We have a cooperative working relationship on just those issues. I think that the reality is that we are actively engaged in monitoring our schools. I appreciate the suggestion perhaps that the monitor/monitee relationship can be interesting at times.

I would ask you to just ask the school districts whether they think it is a particularly cozy relationship with the Department of Education. We hear it often, that they are not particularly happy

with what we say to them about monitoring their activities, and we are quite active with them in doing that. We find ourselves in that situation quite often. It is a love/hate relationship.

We ship them a whole bunch of money, and at the same time, we then come back to them and say that you better be doing it right. We are very active in that, and we are very active with them when they are not doing it right on a regular basis.

Chairman TOWNS. Mr. Schultz, I guess you heard about that great relationship between Education and, of course, the Governor's Office. I would like to get your comments on that, because that is sort of unusual.

Mr. SCHULTZ. It is unusual as I understand it. That is a separately constitutionally elected office. The role of the task force has and will always be to provide oversight and technical assistance. We did, very actively, provide guidance to all of the State's departments to ensure that people were using the new job calculations.

There is a Recovery Act bulletin that we provided to the committee, and we have done individual meetings with departments.

It is an interesting relationship, but something that we have to deal with. We are very much in partnership with the department. It does not mean we always agree. The Governor as a separate constitutionally elected official can disagree.

They have come together on things recently like Race to the Top, but we had a difference of opinion in terms of—

Chairman TOWNS. How you get to the top. I understand that. Depends on how you get to the top.

Ms. CHICK. Well, I think one of those things the Recovery Act keeps highlighting is how government operates in silo, and how important it is for us to work together.

I would just publicly offer, although my shop is small, that all of the State departments receiving recovery dollars, except for the Department of Education, have signed MOUs with my office giving me the authority and the possibility to do these on the ground in real time spot checks.

I would offer whatever help my small shop can give to the Superintendent and the Department of Education, and would love to have him sign one of those MOUs with me.

Mr. SCHULTZ. I think, this is why in addition to the task force, the Governor appointed Laura the first in the Nation of its kind, because he wanted to ensure that as we were implementing and providing the right oversight, that the money was spent not only efficiently and effectively, but in the right way.

We all try to work in a strong partnership, especially with the locals. I know a number of the committee members brought up the locals. There are many locals that are getting direct Federal money and we have spent an incredible amount of time introducing Federal officials to State officials, supporting their projects.

When I was listening to the mayor, we understand about the flexibility, but we are actually going in the communities and trying to help them bring down those direct dollars.

Chairman TOWNS. I guess, Mr. Payne, you know, I said I was not going to ask this, but the next reporting guideline is for March, are you going to meet that deadline?

Mr. PAYNE. Yes, we will. There is a little bit of conflicting guidance but folks are working very hard.

Chairman TOWNS. So you are going to be OK to do it?

Mr. PAYNE. It's a considerable amount of scrubbing, as Mr. Schultz was talking about earlier, to get everybody at every level to do a robust job of scrubbing that data.

Speaking to the issue of resources, we have detailed only two staff to do this work and they did yeoman's work on the effort, and we are still trying to figure out exactly how we are going to do resources on an ongoing basis.

It is very active, and we are very engaged with our districts to get that data.

Chairman TOWNS. Ms. Calbom.

Ms. CALBOM. I think that there is an effort underway. I know there were a couple communications out to the school districts to work on that. One of the areas that we did not see any additional communication on was in the vendor job area.

I know that the department did put out some guidance, but somehow there seems to be a communication gap, at least—it was not a huge sample, but seven or eight of some of the larger school districts that we talked to, they did not think that they got that guidance.

I think it is real important to make sure there is followup, that everybody is on board, and, in fact, is receiving the guidance and applying it.

Chairman TOWNS. Thank you very much. Ms. Howle.

Ms. HOWLE. I would like to make a comment with regard to oversight and the Department of Education. Absolutely, it is a separate constitutional office, but the State Auditor's Office in California has a responsibility for conducting a single audit. We audit the Department of Education every single year, looking at all of the Federal programs and make recommendations to the Department of Education.

The other thing that I think that can happen in California, and I have been working with the California Legislature, because I really appreciate Congress being very actively involved in the Recovery Act—what I did earlier this year or back in 2009, was meet with the Joint Legislative Audit Committee, which is a committee of Assembly members and senators, to educate them about the Recovery Act and the importance of the Recovery Act to their districts, to their constituents.

We are working as an oversight entity to get the legislature more engaged in oversight and enforcing, helping me because I do not have enforcement authority, to get them to implement recommendations.

In the past few months, the Joint Legislative Audit Committee has had hearings on some of the reports that I have issued, and is planning to have some subsequent hearings over the next couple of months, so that the legislature in California is doing what Congress is doing. Getting engaged and making sure that certainly at the State level, that the State agencies are making changes and correcting the problems that we have identified.

We certainly have a very strong oversight role when it comes to the State Department of Education. There is an independent auditor looking at education.

Mr. SCHULTZ. And for the Recovery Task Force, we have been working not only to educate the legislature but we have had a county-by-county breakdown of the Recovery Act funds that have come, if you will, into the State.

We now have it by congressional district, and we are working on Assembly districts and Senate districts, so that the Members understand by category what is actually coming in, how we can work together, which organizations can we go and target better and say "you, here, these non-profits could participate in this program or that program."

We are trying to work along side in doing that.

Chairman TOWNS. Right. Any other Members have questions?

Mrs. NAPOLITANO. Are you putting that online?

Mr. SCHULTZ. Absolutely.

Mrs. NAPOLITANO. Where are you showing how to access that online?

Mr. SCHULTZ. We are showing it everywhere and anywhere that we can possibly—

Mrs. NAPOLITANO. Try the California cable, public access channel.

Mr. SCHULTZ. That is a great idea.

Mrs. NAPOLITANO. Otherwise, you have the information and nobody else.

Mr. SCHULTZ. We also are doing significant—like I said, we have about 45,000 people. Now, granted that is a small number in the State, but we have gone out to various communities.

Mrs. NAPOLITANO. Ms. Chick, one of the things that you mentioned was the work investment board, the WIB. Back in my City Council days, I found it very lacking in being able to do the jobs that they were supposed to do because they were hiring the same companies. The companies were bled. Once they trained the people, they would let them go and hire another one to get that funding.

I would love a comprehensive report, because that to me is critical to be able to ensure that people who need job training, who can maybe then proceed to moving into jobs, especially if they are green energy jobs.

Ms. CHICK. So, if I might.

Mrs. NAPOLITANO. Quickly, very brief.

Ms. CHICK. I would say the Work Investment Act needs re-visiting. It would be a wonderful time and way some point soon for Congress to reassess—

Mrs. NAPOLITANO. Let's work on that. We will get something in the works.

Ms. CHICK. I am doing more WIB reports, and I would be happy to forward them all to you.

Mrs. NAPOLITANO. Thank you. Mr. Schultz, the California Recovery Task Force, do you work with small businesses to be able to do job training along with WIB?

Mr. SCHULTZ. Absolutely. Absolutely. We have a small business advocate and small business—

Mrs. NAPOLITANO. Again, who knows about it?

Mr. SCHULTZ. Well, I think that we go out to all of the major small business organizations across the State.

Mrs. NAPOLITANO. How about the Chambers?

Mr. SCHULTZ. We write newsletters. All the Chambers. We work with every major——

Mrs. NAPOLITANO. How about the cities?

Mr. SCHULTZ. Chambers, the cities. We just met with the California State Association, with the counties, with the cities. We go to their meetings.

Mrs. NAPOLITANO. Contract.

Mr. SCHULTZ. Contract cities. We have been to them all.

Mrs. NAPOLITANO. Can I again suggest——

Mr. SCHULTZ. That one, we will do. That is a great suggestion.

Mrs. NAPOLITANO. Weatherization is an issue, and then other home improvement areas. We also work with the California licensing board that goes out, to be able to understand that this is part of where the money is going to, weatherization.

Mr. SCHULTZ. Yes, absolutely. Not only with those organizations, but with the organizations that represent seniors, children, low income, county welfare directors' associations. All of them, we have been out visiting them, at their meetings, talking about all these various programs, including weatherization.

Mrs. NAPOLITANO. Do you send notices so they can put it on their reader boards for their public access channel?

Mr. SCHULTZ. We will need to do that. We do send out lots of press releases that go out——

Mrs. NAPOLITANO. It could still be on the public access channel.

Mr. SCHULTZ. Understood.

Mrs. NAPOLITANO. OK.

Mr. SCHULTZ. That is a great suggestion, and I think we will do that.

Mrs. NAPOLITANO. I appreciate it.

Ms. CALBOM, you talked about the cities and the counties, and by the time it trickles down to the locals, you have already lost 20 to 30 percent of the funding in the administration and the administrative fees.

How difficult would it be for direct funding to the cities, being able to have all the things that goes with it, the reporting, the access, everything? Because to me, as you see, they are the ones that get the job done. They know what their requirements are for their locals to be able to do the hiring, and know which businesses are legitimate, if you will.

How difficult would it be if the task force requires more infusion of personnel to be able to oversee it?

Ms. CALBOM. Yes. It would require more oversight. I mean, as we have been talking all along, any entity, be it a city, county, or the State that is getting funding, needs to have the oversight that goes along with it.

As far as how difficult would it be to set up the reporting infrastructure, Mr. Schultz can probably speak to that, because they have had to do it at the State level.

Depending how many programs I think you are talking about, there is a fair amount that has to go into it.

Mrs. NAPOLITANO. That is OK.

Ms. CALBOM. OK.

Mrs. NAPOLITANO. I am already down to the “nitty-gritty” here. Also, in talking about weatherization, there are only 2 percent that have been——

Mr. SCHULTZ. That has significantly, at this point, changed. We have almost, I believe, 900 that are completed, but about 3,000 others that have either started or——

Mrs. NAPOLITANO. Explain the process. Who do you utilize? Davis-Bacon is involved.

Mr. SCHULTZ. Correct. The initial strategy was to go out to existing weatherization providers, because there are two programs in the State. One is a Federal program, the low-income housing weatherization program, and there is a general weatherization program.

Mrs. NAPOLITANO. Before you go further, do you realize the International Brotherhood of Electrical Workers is working in tandem with NECA, National Electrical Contractors Association, to do green buildings?

My concept is why do you not start with hospitals in the community, city council, the chambers, whatever, schools, because they are the ones who need the most to be able to save that money.

A program that will help them be able to put up front money, loans or guarantees of some kind, and then be able to save in the long run all that money, which would put additional funds into teacher pay or all the other things.

Why are we not also doing that with homes? Because you can add it on, like a reverse mortgage, for instance. Has anybody looked at those programs?

Mr. SCHULTZ. Well, I think in terms of—it depends on which programs you are talking about. If you are talking about the weatherization program, especially, as I said, as a former Labor Secretary to Governor Davis, we have recently been meeting with the IBW and with the laborers and other people to bring them into the weatherization program.

Because the concern, since I have been in on in the last 8 weeks, to be quite frank, is that in going with the original providers, it was probably a good strategy, but it was not an effective strategy. The State fell down because it did not reach out broad enough to providers, such as the ones that you are talking about.

I had a conversation with a labor official yesterday and said let’s walk through the Davis-Bacon requirements. I just want to make sure that you understand that we are fully supportive of your coming on and being subcontractors. There is a big difference between a prevailing wage in the State and Davis-Bacon.

In most areas, it is lower, but in this economy, I want to understand, as a former Labor Secretary, I think you probably want jobs in the area, and you deserve jobs in this area, and some of the providers that originally were there, they opted out for two or three reasons that I mentioned earlier.

One, many of them said I do not want to do ARRA, the reporting requirements are too difficult. Second, some of them did say I just do not want to do a government program where I am going to have to get paid less. The other one that was really significant is that there were some problematic agencies, and we did not go out and

contract with high risk agencies. We have not been able to work with them, so I am with you.

Mrs. NAPOLITANO. Well, I know my time is short. One more comment, and then I will quit. That is, Laura, you have a great idea. Why do not all the agencies work together to be able to strategize of what is priority, how do you manage to be able to do all the things we have been discussing here to protect the general public, protect the moneys of the general public, and of course, do a better job.

Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much. Congresswoman Watson. You OK?

Ms. WATSON. Yes. I will yield to the Congresswoman.

Chairman TOWNS. Ms. Watson yields to Congresswoman Richardson.

Ms. RICHARDSON. Thank you. I have five questions and 5 minutes, so about 30 seconds each.

Ms. Howle, I thought I understood in your presentation you said that education had received about \$1 million and had spent half of that. Did I hear you correctly?

Ms. HOWLE. Education had—it had been \$1.6 billion advanced to local school districts and those school districts, as of September of last year, had spent \$570 million.

Ms. RICHARDSON. Mr. Payne, when you sat there and said you are doing a great job of oversight, that does not sound very great to me, so if you could include that in your report of what is missing. That means you are batting 30 percent, and if any of your students got 30 percent, they would fail.

Mr. PAYNE. Thank you. I appreciate that, and we will provide that. A little bit of context for the issue. The money was shipped consciously, but it is also money to be used over a period of time. The context of the districts, of course, is that it sort of—the balance is about \$45 billion in State and local funds.

As we know, 2 years ago that was over \$60 billion in State and local funds, and about \$7 billion in Federal funds.

They are dealing with orders of magnitude, a much bigger problem than just buckets that can be filled with Recovery Act money. Part of our struggle with that has been to encourage them to spend the money as quickly as possible.

At the same time, their natural instinct is to conserve, because the budgets keep being bad. From that prospective, they know what the rules are. We have been communicating with them, that they have to remit any funds that interest is unspent. We are engaged with them in doing that.

Ms. RICHARDSON. Mr. Payne, I have read Ms. Howle's report, and I believe the problem extends beyond that. So in your response to this committee, if you could address the questions that Ms. Howle has, and I would venture to say to you that my recommendation to the school districts is—for example, Long Beach Unified has sent out 800 notices—I do not know if we have until next year, 2 years from now.

The question would be if we are considering closing schools, reducing classes, all of that, I think the re-evaluation has to take place. You said you are providing oversight. I am saying as a mem-

ber today of this committee, it does not seem to be sufficient. I would like to hear further what you are going to do.

No. 2. Ms. Howle, you said that you provided recommendations to the Joint Legislative Audit body about things that they could implement. If you could provide this committee with those. Not only with education, with any other department.

Mr. Schultz, you mentioned a district by district report, if you could supply that report to this committee.

Mr. SCHULTZ. Absolutely.

Ms. RICHARDSON. Also, the distressed areas and how that has changed, if you could supply that to the committee.

Mr. Schultz and Mr. Payne, as I mentioned in my entry-level comments, a lot of the recovery's success has to be that we as Members lead and support the State and its departments.

I had an instance where it was the first kick-off of an educational event, I think California was named first. You guys had an event in my district. I did not receive an invitation. I did not receive notification. It was really a slap in the face.

So I would say to you, if I have a second chance at the bite of the apple to disburse recovery dollars, they are not going to you, they are going directly to the schools, and those are some of the reasons why, some of the reasons that are written in the report, and I think just really an overall lack of respect and inclusion and working with other people who are trying to work with you to be successful.

I just wanted to say that. And finally, Ms. Chick and Mr. Payne. Ms. Chick offered the MOU. Are you willing to sign it?

Mr. PAYNE. Not at this time. We will review it.

Ms. RICHARDSON. Haven't you already reviewed it?

Mr. PAYNE. We have auditors of our own that spot-check. We also depend on Ms. Howle's organization as well.

Ms. CHICK. I am talking about going out on the ground to actually look at what is going on at a school district. I would need that MOU to be able to do it.

Ms. RICHARDSON. We would hope that you would reconsider that. I think that Laura's doing a great job, as she obviously noted in her testimony. I think Ms. Chick and what her office provides would only help and not hurt. If you are doing such a good job, you should not be afraid of it. I look forward to your report.

Thank you.

Chairman TOWNS. Thank you very much. If there are no further comments—

Ms. WATSON. I would just like to make a final comment.

Chairman TOWNS. Sure. The gentlewoman from the 33rd District.

Ms. WATSON. Thank you so very much. In the audience, we have a young man that has served on the City Council of Inglewood. I believe since the former mayor has stepped down, I think Danny Taper is acting mayor. However, we did not know that he was going to be here 3 days before, so we cannot call him.

He did ask some questions to the panel, and I would just like to throw them out, and if you are not prepared, then you can give them to us in writing.

It's about the city of Inglewood, and it is adjacent to my district, the 33rd. My district is the 33rd, and I think that Inglewood is the 35th Congressional District. They have been working with addressing transportation and the waste, fraud, and abuse in the use of stimulus funds.

If you have any information on how they are doing with that, we would like to know. Has Inglewood experienced difficulty in getting funds into shovel ready projects. If any of you know about Inglewood, particularly, we would like to know. What examples would you have of collaborating with the use of ARRA funds.

These are the questions that would have been asked should he have been able to testify. If you have any information on Inglewood—

Chairman TOWNS. Madam Chair, let me just say what we need to do is just submit them in writing and let them respond to them.

Ms. WATSON. And with that said, I want to thank you so much for traveling here, and my colleagues, too, and spending the time that you have with us. It has been very, very valuable.

I also want to again apologize for our mayor. We did not know that he was leaving so soon, but I was glad he was here, and he does have a written statement, and from that, we can glean information from as we shape policy.

With that, let me thank you for coming to Los Angeles and holding the hearing with our Subcommittee on Government Management, Organization, and Procurement. It has been very informational.

I want to thank all the witnesses for your valuable input. We will take this back with us to Washington, DC.

Chairman TOWNS. It is a pleasure to be here with you. Of course, we regret that you will leave us, but you have made your mark. It has been a pleasure working with you. Let me just sort of say that publicly in your District. [Laughter.]

Let me thank all of the witnesses for your testimony, and I appreciate the interest of the Members of Congress, State and local government officials, and the California residents who attended this hearing today.

In Washington, it is easy to stay behind blinders and only look at the big picture of government programs, or outlays. It is easy to simply look at formulas that say that we have helped or that we should have helped a certain number of people with a particular dollar amount of Federal spending.

At some point, in order to really know what is going on, we have to step outside the box, go out into the field to hear from the providers and evaluators. Quite frankly, measuring the success of the Recovery Act is not about a Federal agency being able to say that it has helped employ certain numbers of people with recovery dollars. It is about local leaders being able to tell us that people in their communities are now employed and providing for their families.

It is about those leaders being able to tell us that communities are being revitalized, and that businesses are getting back up on their feet. It is about taking a good hard look at the Federal dollars coming out of the bottom end of the funnel in order to make sure we are not losing taxpayer dollars to waste, fraud, and abuse.

It is clear from today's testimony, that the Office of Management and Budget and Federal agencies still need to work on providing guidance in a clear, consistent, and timely manner, so that recipients of the Recovery Act dollars are able to comply with the requirements associated with those funds.

It is also clear that some entities here in California, namely the California Department of Education, need to take more seriously the obligation to adhere to the transparency and accountability requirements that must go along with the use of Recovery Act funds.

The testimonies we heard today also demonstrate that while the Recovery Act has begun to create jobs and has provided much needed assistance to filling California's budget deficit, it also creates another promise, the promise of staggering administrative costs for their implementation, and the very real threat of waste, fraud, and abuse.

It is estimated that the cost of audit and oversight activities of Recovery Act funds in this State will be over \$6.5 million through fiscal year 2010 to 2011. With the FBI warning that we can expect 7 to 10 percent of recovery dollars lost to fraud, in my view, every audit and every oversight activity that can be performed to prevent the waste of these funds is priceless.

As such, I would like to again publicly call on the U.S. Senate to take action on the enhanced oversight of State and local economic Recovery Act funds, which Congressman Issa and I introduced, in order to help States and localities defray the expense of implementing the Recovery Act.

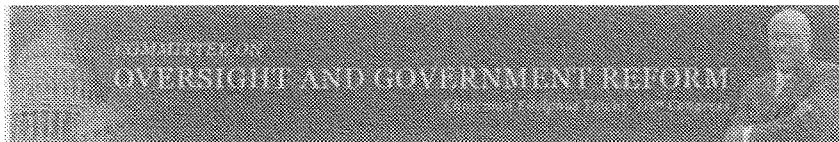
Several members of this committee joined with me to pass that bill in the House. Nonetheless, the legislation is still being held up in the Senate. Today we have heard about things going right and things going wrong in the State of California.

It is our job as Members of Congress and as members of this committee to put what we have learned to constructive use. Whether we represent Brooklyn, NY, or East L.A., we need to make sure that our Nation's recovery efforts are tailored to work for all Americans from coast to coast. From the Atlantic to the Pacific.

Again, I thank our distinguished panel for coming today. Reserving the right to object, the record shall be left open for 7 days, so that Members may submit information for the record.

And finally, without objection, I will enter this binder of hearing documents into the committee record.

[The prepared closing statement of Chairman Edolphus Towns follows:]



For immediate release: Friday, March 5, 2009
Contact: Oversight and Government Reform Press Office, 202-225-5051

California Field Hearing Closing Statement Chairman Edolphus “Ed” Towns, D-NY

“Tracking the Money: Assessing the Recovery Act’s Impact on the State of California”

I thank all of the witnesses for their testimony—and I appreciate the interest of the Members of Congress, the State and local government officials, and the California residents who attended this hearing today.

In Washington, it is easy to stay behind blinders and only look at the big picture of government programs or outlays on a federal agency balance sheet. It is easy to simply look at statistics and formulas that say that we have helped, -- or that we should have helped, a certain number of people with a particular dollar amount of federal spending. At some point, in order to really know what is going on, we have to step outside of the box, and go out into the field to hear how things are progressing straight from the horse’s mouth.

Quite frankly, measuring the success of the Recovery Act is not about a federal agency being able to say that it helped employ “X” number of people with Recovery dollars. It’s about local leaders being able to tell us that people in their communities are now employed and providing for their families; -- it’s about those leaders being able to tell us that communities are being revitalized, and that businesses are getting back up on their feet; -- and, it’s about taking a good hard look at the federal dollars coming out of ‘the bottom end of the funnel’ in order to make sure we are not losing taxpayer dollars to waste, fraud, or abuse.

It is clear from today’s testimony that the Office of Management and Budget (OMB) and Federal agencies still need to work on providing guidance in a clear, consistent, and timely manner so that recipients of Recovery Act dollars are able to comply with the requirements associated with those funds. It is also clear that some entities here in California, -- namely the California Department of Education (CDE), need to take more seriously the obligation to adhere to the transparency and accountability requirements that *must* go along with the use of Recovery Act funds.

The testimony we heard today also demonstrates that while the Recovery Act has begun to create jobs and has provided much needed assistance to filling California’s budget deficit, it also creates another promise – the promise of staggering administrative costs for its implementation, and the very real threat of waste, fraud and abuse.

It is estimated that the cost of audit and oversight activities of Recovery Act funds in the state will be over \$6.5 million through Fiscal Year 2010 to 2011 alone. And, with the FBI

warning that we can expect 7-10% of Recovery dollars lost to fraud, in my view every audit and oversight activity that can be performed to prevent the waste of these funds are priceless.

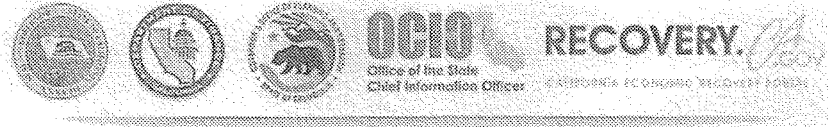
As such, I would like to, again, publically call on the United States Senate to take action on "The Enhanced Oversight of State and Local Economic Recovery Act," which I introduced in order to help states and localities defray the expense of implementing the Recovery Act. Several Members of this Committee joined with me to pass that bill in the House. Nonetheless, that legislation is still being held up in the Senate.

Today, we have heard about things going right and things going wrong in the State of California. It's our job as Members of Congress, and as Members of this Committee, to put what we have learned to constructive use. Whether we represent Brooklyn, New York, or East LA, we need to make sure that our nation's Recovery efforts are tailored to work for all Americans, -- from coast to coast, -- from the Atlantic to the Pacific.

Again, I thank our distinguished panel of witnesses.

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Chairman TOWNS. The committee stands adjourned.
[Whereupon, at approximately 4:35 p.m., the committee was adjourned.]
[Additional information submitted for the hearing record follows:]



April 28, 2010

The Honorable Edolphus Towns
2232 Rayburn House Office Building
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Towns,

Thank you for the opportunity to allow our Task Force to testify before your subcommittee on March 5, 2010. I would like to take this opportunity to introduce myself as the new Director of the California Recovery Task Force. I have taken the position after the departure of Herb K. Schultz, who testified before your committee in early March. I write to update you on the issue of economically distressed areas (EDAs) and the Highway Infrastructure Investment funds received by the California Department of Transportation (Caltrans). As then Task Force Director Herb K. Schultz stated in the written testimony, Caltrans has provided 59% of the Highway Infrastructure Investment funds to projects in 41 of the 58 counties that were designated EDAs by the Federal Highway Administration (FHWA) in August 2009. By funding projects in these areas, California has demonstrated that priority was given to EDAs as required by the American Recovery and Reinvestment Act of 2009 (Recovery Act).

As you know, the recession is taking a tremendous toll on the State of California. Our unemployment rate continues to be among the highest in the nation. Given this economic hardship, designation of the EDAs is of particular importance to the state. While the remaining 17 counties do not meet the requirements under the Public Works and Economic Development Act of 1965 (PWEDA), Caltrans contends that these counties meet the special needs provisions provided the FHWA on August 24, 2009.

It is important to note that the designation of EDAs is a moving target, particularly in California. After the passage of the Recovery Act, the FHWA initially designated 39 California counties as economically distressed. The most recent information available, from February 2010, indicates that 45 counties are now considered economically distressed. Thus, as the 24-month time-span defined in PWEDA captures the rapid decline of the California economy in 2008, it can be expected that additional counties will be designated as EDAs.

One of our challenges is providing the FHWA with documentation that is publicly and readily available for those counties not designated as EDAs. To date, the FHWA has not accepted the use of unemployment data without more specific business closure or restructuring information. As Mr. Schultz stated in testimony, information regarding layoffs by a specific employer is confidential under state law. Caltrans is working with state agencies to identify other readily

Chairman Towns
April 28, 2010
Page 2

available and verifiable data that would provide an acceptable substitute for the confidential data should the need arise to document the EDA designation under the FHWA special needs criteria.

Thank you for your consideration, and I look forward to working with you and the committee on issues relating to the Recovery Act in the future.

Sincerely,



RICHARD RICE
Director, California Recovery Task Force and
Senior Advisor to Governor Schwarzenegger

cc: Congresswoman Diane E. Watson, Chair, Subcommittee on Government Management,
Organization, and Procurement
Earl Seaberg, Recovery Act Program Manager, California Department of Transportation



**BOARD OF SUPERVISORS
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Telephone (213) 974-4444 / FAX (213) 626-6841

DON KNABE

SUPERVISOR, FOURTH DISTRICT

March 3, 2010

The Honorable Diane E. Watson

Chair

Subcommittee on Government Management, Organization, and Procurement

House Committee on Oversight and Government Reform

2157 Rayburn House Office Building

Washington, DC 20515

Dear Congressman Watson:

I am writing to highlight the success Los Angeles County has had with funding made available through the American Reinvestment and Recovery Act (ARRA). As you know, the Act established the Temporary Assistance to Needy Families – Emergency Contingency Fund (TANF ECF), to make additional TANF funds available to states to meet the growing needs of low-income families and children during the worst economic downturn in many years.

When we became aware of this funding, we seized upon the opportunity to utilize it to create thousands of subsidized jobs. I am pleased to say that our TANF ECF subsidized employment programs have been a great success despite the weakened economy and high unemployment rate. This is because TANF ECF enables us to subsidize 80 percent of total wages and other subsidized employment costs, making it affordable for employers to hire additional workers - even welfare recipients and other low-income persons with relatively little job skills and work experience.

As a result, I am proud to say that, by combining this program with other ARRA-funded youth employment programs through the Workforce Investment Act (WIA), Los Angeles County has put almost 11,000 County residents to work in the past twelve months.

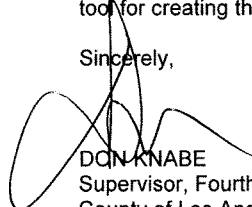
The Honorable Diane E. Watson
March 3, 2010
Page 2

Unfortunately, all of the benefits that Los Angeles County and its residents receive from the TANF ECF funding will disappear on September 30, 2010 if the program is not extended beyond FY 2010 with sufficient funding.

I respectfully urge you to advocate for legislation that would continue TANF ECF, so we can continue to build upon the success we have achieved thus far to promote and develop what I believe is genuine economic stimulus in our local communities across Los Angeles County. Enclosed is a fact sheet that provides additional information and success stories that offer further evidence of the great benefits this funding has had.

There is no question that more jobs are needed, and TANF ECF is an important tool for creating them now.

Sincerely,



DON KNABE
Supervisor, Fourth District
County of Los Angeles

DK:e

Enclosure

Los Angeles County's Subsidized Jobs Initiative: Creating Thousands Of Jobs In Partnership With Employers

FACT SHEET

How Federal Funding Creates Subsidized Jobs In LA County

The TANF Emergency Contingency Fund (ECF) was established by the Federal ARRA to provide states with the ability to access ECF dollars (up to a limit) to fund subsidized employment, TANF cash grants for their increasing caseloads, and certain non-recurrent benefits designed to keep families afloat in the aftermath of the recession. Over the past several months, 21 states have successfully used these federal stimulus dollars to create or expand temporary subsidized jobs programs which have proven to be a cost-effective way to create tens of thousands of jobs in local communities.

Los Angeles County's jobs initiative provides a model that has proven popular with private employers, as well as those in the non-profit and public sectors. The CEO of one participating company, Consolidators International Inc. (CII), a shipping company operating out of Los Angeles, describes his positive experience with the program by emphasizing, *"The [seven] people we have hired are developing into valued employees. CII now is operating in a more efficient manner with higher levels of service to our customers. Our new employees have been quick to learn, are enthusiastic about their work and are completely dependable."* This company's experience and several other examples of employer partnerships are described in more detail on pages 2-3 of this document.

Los Angeles County's success is also a result of partnerships with the South Bay Workforce Investment Board and 35 Workforce Investment Act One-Stop Career Centers, which have already created 4,566 temporary subsidized jobs as of February 17, 2010 with ECF and matching funding from the employers themselves. Over the next several months, LA County and the South Bay Workforce Investment Board are on track to add several thousand more jobs, contributing to a projected 20,000-25,000 ECF subsidized employment opportunities for families across California.

ECF jobs serve as a way out of the unemployment line for low-income families struggling to find jobs in communities still a long way from economic recovery. The following are examples in LA County of the types of parents for whom an ECF subsidized job has been a lifeline:

- Parents employed by a business facing closure or significant lay-offs;
- Parents with children receiving CalWORKs cash assistance (i.e., TANF)
- Non-Custodial Parents who were receiving County-funded General Assistance and who have children receiving CalWORKs (i.e., TANF) or Medi-Cal;
- Parents struggling in vulnerable families receiving child welfare services, including family preservation services; and
- Parents living in a domestic violence shelter or homeless shelter.

The Federal ECF Boosts Local Economies

Based on the Congressional Budget Office's (CBO) January 2010 report, *"Policies for Increasing Economic Growth and Employment in 2010 and 2011"*, extending and expanding ARRA's TANF ECF would be one of the most timely and cost-effective policy options for

increasing economic growth and employment. Of the policy options analyzed by the CBO in this report, the two options which were estimated to be the most cost-effective and timely were increasing aid to the unemployed, followed by reducing employers' payroll taxes. Therefore, based on the CBO's analysis and methodology, TANF ECF would be more cost-effective and just as timely as any of the major policy options to increase economic growth and employment analyzed by the CBO.

The Center on Budget and Policy Priorities further underscored the strong economic stimulus effect of the ECF in their January 27, 2010 Special Series Paper, *"Extending The TANF Emergency Fund Would Create and Preserve Jobs Quickly And Efficiently"*. The authors stated:

"Economists widely regard basic assistance to very poor families as among the most effective forms of economic stimulus in ARRA. Research shows that low-income individuals generally spend virtually all of their limited income to meet ongoing needs such as shelter, food, and transportation. That, in turn, helps to sustain local merchants and services and, through them, neighborhood economies and jobs."

Economists have cited how income subsidies, like subsidized wages to low-income families and basic cash grants which the ECF also supports, are dollars that quickly enter local markets and create significant economic multiplier effects.

Employers Reap Significant Benefits From The ECF

The following are a few examples of how LA County employers have benefitted and the types of jobs that have been created through the ECF. These examples come from the private, for-profit sector, as well as the public and non-profit sectors.

1. **Consolidators International Inc in Los Angeles, CA** is now growing despite a weak economy. Company CEO, Julian Keeling, indicated when they decided to hire seven workers through LA County's program, it was *"purely a business and not a charitable decision."* Mr. Keeling sums up his company's experience partnering with the LA County program in the following way: *"Our decision to hire workers through the stimulus program has resulted in a win-win situation for all concerned. In a small way, CII has reduced unemployment. The people we have hired are developing into valued employees. CII now is operating in a more efficient manner with higher levels of service to our customers. Our new employees have been quick to learn, are enthusiastic about their work and are completely dependable. Perhaps most importantly, the seven have blended effortlessly and without friction into CII's existing staff. The misguided impression that the unemployed either are unwilling or unable to work is totally false."*
2. **V-Cube Inc in Torrance, CA** hired two subsidized employees through LA County's program and is pleased with how well both hires have integrated into their company. Both hires had little work experience and were brought onboard into entry-level positions, but it soon became clear to the company's managers that they were both highly motivated and quick learners. Within months, one participant was running web seminars. The other is working as a project coordinator for the company.
3. **Department of Beaches and Harbors, Los Angeles County, CA** is responsible for, among other things, operating and maintaining 18 beaches stretching over 61 miles of coastline and visited by over 50 million people each year. Faced with the need to stretch scarce funding, but still maintain critical custodial and beach maintenance operations, Department managers hired 17 subsidized employees through the program to augment their existing maintenance staff. These 17 new hires have been tasked with helping keep

over fifty restrooms clean, removing debris and trash from beaches and in dozens of parking lots, and performing landscaping. Department managers have been very impressed by how well the program has been working and even indicated that since the program began, they have been receiving positive comments from patrons and lifeguards on the cleanliness of the restrooms. Jorge, one of these new hires, summed up his experience working for the Department as *"...a good opportunity to get one's foot in the door."*

4. **Executive Financial Enterprises (EFE) in Los Angeles, CA** was looking for an administrative assistant when they learned about LA County's subsidized employment program. They hired one participant and based on the positive experience, they filled seven additional positions with subsidized employees. When it became clear that EFE was understaffed during night shifts, an additional five subsidized employees were scheduled to work in the evening. The company has expressed a desire to shift several of these subsidized employees into an on-the-job training program and offer them permanent positions.
5. **Neighborhood Legal Services (NLS) in Glendale, CA**, like many non-profit agencies, has been negatively impacted by the poor economy and has been forced to stretch shrinking resources to maintain operations. NLS decided to interview and hire a clerk through the program to help out with general office duties. Although the new hire entered the U.S. as a refugee only two years ago, and had no work history in this country, she came with strong English and translation skills from her employment in her country of origin. NLS managers have been very impressed by her diligence, work ethic and skills. She has become a valued asset in their Office. In addition, this employment opportunity has been eye opening for the new employee and has spurred her interest in legal services.
6. **It's A Grind Coffee House in Palmdale, CA**, interviewed and hired Ms. N, a single mother with two children, through LA County's program to work both directly with their corporate clients and as a barista. In this difficult economy, Ms. N is grateful for the chance to develop her skills and explore this growing industry. The Company has viewed the program as one way to help it expand its business and is planning to grow over the coming months in order to permanently hire all four subsidized employees it has brought on board.

Thousands Of Unemployed Parents And Families Benefit

The following is just one example of the many families in LA County previously shut out of the job market who have been given a life-line through an ECF subsidized job:

Ms. Taylor, mother of two small children (one with autism), was recently able to move off her aunt's couch and into her own apartment after getting a subsidized job at Shields for Families. She sums up her experience in the program by saying, *"...you guys gave me a chance when the whole world seemed like they were saying 'No, not this time.' Without this program, I could not pay my rent and my babies and I would be back on the streets... Now I have something extra to put on my resume."*

Prepared by Los Angeles County Department of Public Social Services, February 23, 2010

For more information please contact Bill Taylor, Director of Intergovernmental Relations
at billtaylor@dpss.lacounty.gov or at (562) 908-8517



JACK O'CONNELL
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

April 2, 2010

The Honorable Edolphus Towns, Chairman
U.S. House of Representatives
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

The Honorable Diane E. Watson, Chairwoman
U.S. House of Representatives
Subcommittee on Government Management, Organization, and Procurement
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

Dear Mr. Chairman Towns and Madam Chairwoman Watson:

Thank you for giving me the opportunity to speak before the joint hearing U.S. House of Representatives Committee on Oversight and Government Reform and Subcommittee on Government Management, Organization, and Procurement on March 5, 2010, in Los Angeles. There are several issues that require follow-up.

Use of Stimulus Funds

You asked about the use of stimulus funds.

In one question, a Representative asked about why teacher layoffs are occurring given the availability of federal funds. Teacher layoffs are occurring because the state education budget has been reduced by \$17 billion over the last two years. While the stimulus funds have been a lifeline for us, the amount (about \$6 billion for kindergarten through grade twelve [K-12] education in California) has not been enough to prevent layoffs. The layoffs would be much greater were it not for the stimulus funds. Our sub recipients reported they created or retained 25,000 certificated staff in the second quarter as a result of stimulus funding.

You also asked why the stimulus funds have not been spent more quickly. In response, the continuing state fiscal crisis has contributed to an environment of great uncertainty, and the uncertainty encourages school districts to hold some of the stimulus funds in reserve. We note that the fiscal crisis is not over in California. The Governor's Budget, released in January 2010, proposes \$1.5 billion in additional cuts to school general-purpose funding in 2010-11.

You asked how school districts are using these funds. We know how many jobs our sub recipients have created or retained; we know whether the jobs are certificated, classified, or vendor jobs; we know what infrastructure projects have been funded; and we know what vendors they have paid. For the State Fiscal Stabilization Fund, we will have more information

The Honorable Edolphus Towns, Chairman
 The Honorable Diane E. Watson, Chairwoman
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this fall because we are required to report on the uses of the funds annually (guidance on this data collection has not been released yet). We unfortunately have not collected additional information because of the burden on both local educational agencies (LEAs) and the California Department of Education (CDE)—as I indicated in my testimony, we have only two staff working on reporting, and they had to be redirected from other pressing work. We have not been able to use any of the federal funds for oversight.

There was a question about excessive salaries and bonuses paid to education officials. This is not a practice in California's K–12 system. We do not have any information on the uses of the higher education funds and bonuses paid to higher education officials. The State Superintendent of Public Instruction does not have any jurisdiction over the public institutions of higher education.

Finally, you asked about the status of our Section 1512 quarterly reporting. We met the March 15 deadline for revision of second-quarter reports and have already submitted our third-quarter data to our state data system for submission to the federal system in April.

Findings in Audit Reports

You asked us to respond to two specific findings.

The Bureau of State Audits report dated January 2010 contains a finding on our cash management processes. The concern is that we do not have sufficient oversight to ensure interest earnings on federal funds are not submitted promptly to the state.

We have issued guidance to LEAs on the federal cash management rules, most recently on January 25, 2010. In fact, we have received \$2 million from LEAs of interest on unspent American Recovery and Reinvestment Act (ARRA) of 2009 funds as a result of that guidance. We also are developing new monitoring procedures to include new fiscal components related to cash management.

The Governmental Accountability Office (GAO) issued a finding related to guidance on reporting of vendor jobs created and retained. We believed our guidance is clear, but will revise it according to the GAO suggestions.

We note that we convey our guidance in several ways: e-mails to all superintendents and charter school administrators, e-mails to district contacts for the individual grants, and postings on the CDE ARRA Reporting & Data Collection System Web page at <http://www.cde.ca.gov/ar/rr/rptingdatcol.asp>.

You also asked us whether we have posted audit findings on our CDE Web site. We have not done so, because the auditing agencies post their findings on their own Web sites. We will post Web links to their Web sites on our CDE ARRA Web page.


The Honorable Edolphus Towns, Chairman
The Honorable Diane E. Watson, Chairwoman
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Participation in Press Event

Representative Richardson asked that we include Members of Congress in press events related to the stimulus funds. As I said in my testimony, we are grateful to Congress for supporting the stimulus bill. The funds have been the only lifeline in the dismal fiscal situation facing LEAs in California. We are careful to invite local Representatives to any events we organize. Apparently, the event mentioned by Representative Richardson on April 17, 2009, was organized by someone else.

If you have any additional questions, please do not hesitate to contact me by phone at 916-319-0794 or by e-mail at gpayne@cde.ca.gov.

Sincerely,


GAVIN PAYNE
Chief Deputy Superintendent of Public Instruction

GP:cb

cc: Members, House Committee on Oversight and Government Reform
Members, House Subcommittee on Government Management, Organization, and
Procurement
Linda Calbom, Director, Western Region U.S. Government Accountability Office
Herb K. Schultz, Director, California Recovery Task Force
Laura N. Chick, Recovery Inspector General, State of California
Elaine M. Howle, California State Auditor, Bureau of State Audits