CALIFORNIA STATE AUDITOR
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FACT SHEET

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The California State Auditor released the following report today:

High-Risk Update—California's System for Administering Federal Recovery Act Funds

State Departments Are Preparing to Administer Aspects of Recovery Act Funding, but Correction of Control Weaknesses and Prompt Federal and State Guidance Are Needed

BACKGROUND

California anticipates receiving over $85 billion from the American Recovery and Reinvestment Act of 2009 (Recovery Act), enacted early this year to preserve and create jobs and to stimulate the economy. While some of the funds will go directly to local and nongovernment entities and to Californians as tax relief, nearly $37 billion will be allocated to state departments and other entities, mostly by fiscal year 2009–10. Due to numerous federal requirements, the large amount of funds anticipated, the quickness in which funds must be spent, and various internal control weaknesses we identified in prior audits of federal funds, in our April 2009 report (2009-611), we designated the State's implementation of the Recovery Act as a high-risk issue. In late March the governor created the California Federal Economic Stimulus Task Force (Task Force) to, among other duties, track Recovery Act funding the State receives.

KEY FINDINGS

Our assessment of the State's preparedness for administering Recovery Act funding at four state departments expected to receive significant amounts of Recovery Act funds in fiscal years 2008–09 and 2009–10 revealed the following:

- All four departments—Education, Health Care Services, EDD, and Social Services—intend to rely on internal controls already in place for existing federal programs to administer Recovery Act funds they expect to receive. However, in previous audits we noted 30 deficiencies in those controls, 26 of which have not been corrected.
  - Neither Social Services nor EDD conduct on-site reviews of subrecipients of federal funds and Education conducts on-site reviews of local educational agencies (LEAs) that receive federal funds only once every four years. Thus, the departments cannot ensure that their respective subrecipients are spending Recovery Act funds only on allowable activities.
  - Despite repeated audit findings over several years, Education has yet to implement an agency-wide cash management system that minimizes the time between LEAs' receipt and disbursement of federal funds.
  - Health Care Services has paid for medical services that were either not supported or not allowed.
- Some departments acknowledged that they would not be able to meet the new Recovery Act reporting requirements and three departments are awaiting further federal guidance regarding how to report performance data.
- All four departments as well as the Task Force have requested additional guidance from the federal government that they have not yet received.
- Although the Task Force has coordinated with state departments to secure Recovery Act funds, it has not provided specific guidance on reporting on the use of such funds or how to implement directives it has issued.

KEY RECOMMENDATIONS

We made numerous recommendations to the Task Force and to departments to strengthen the State's preparedness and ensure the State receives, uses, monitors, and reports the Recovery Act funds appropriately and prudently. Such recommendations include continued coordination with appropriate federal agencies and between the Task Force and state departments, prompt corrective action on internal control deficiencies previously identified, implementation of effective tracking mechanisms, modification of policies and procedures, proper training for staff on new requirements, and modifications to subrecipient grants and contracts.