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

June 2009 Report 2009-611.1

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June 24, 2009 2009-611.1

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

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents its analysis concerning the State's efforts to develop the necessary infrastructure to administer federal funds received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). This analysis follows up on the identification of the State's implementation of the Recovery Act as a high-risk issue area in our April 2009 report titled *California's System for Administering Federal Recovery Act Funds* (2009-611).

Our analysis concludes that although some departments have exhibited more progress than others, none of the four departments we assessed—the Department of Education, the Department of Health Care Services, the Employment Development Department, and the Department of Social Services—are fully prepared to administer Recovery Act funding. Representatives from each of the four departments generally stated that they intend to rely on internal controls already in place for existing federal programs to administer Recovery Act funding. However, in our May 2009 report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008* (2008-002), we noted 30 internal control weaknesses related to certain compliance requirements and federal programs for which the four departments we assessed expect to receive Recovery Act funds in fiscal years 2008–09 and 2009–10. We assessed the departments' status in correcting these control weaknesses and found that progress has been limited—the departments appear to have corrected only four, are still in the process of correcting 22, and have taken minimal or no action for the remaining four.

Further, some of the departments are uncertain as to whether they will be able to meet some of the reporting requirements established under Section 1512 of the Recovery Act, whereas other departments that administer entitlement or mandatory programs believe they are exempt from these reporting requirements. All four departments indicated they are either seeking or awaiting additional guidance from the federal government regarding these reporting requirements or are seeking guidance on other Recovery Act provisions. Finally, although the California Federal Economic Stimulus Task Force has provided general guidance for securing and applying for funds that are potentially available under the Recovery Act, we believe it should provide a more detailed framework to state departments for administering Recovery Act funding.

Respectfully submitted,

Elaine M. Howle

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State Auditor

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The federal government intends to provide states, local governments, and other entities $787 billion under the American Recovery and Reinvestment Act of 2009 (Recovery Act) to jump-start the economy and to create or preserve jobs. As of May 28, 2009, the California Economic Recovery Portal Web site (State Recovery Portal) showed that California's share of this funding will be $85.4 billion.

As of May 2009 California was still establishing the necessary processes and procedures to fully administer Recovery Act funding. Because the Recovery Act imposes significant provisions for accountability[1] and transparency[2] on entities that receive funds, as well as penalties for noncompliance, we examined the State's preparedness for administering Recovery Act funding by analyzing applicable activities and internal controls at four state departments expected to receive significant amounts of Recovery Act funds in fiscal year 2008–09: the Department of Education (Education), the Department of Health Care Services (Health Care Services), the Employment Development Department (EDD), and the Department of Social Services (Social Services). These four departments are responsible for administering 13 federal programs[3] that have received or are expected to receive $50 million or more in Recovery Act funds by the end of fiscal year 2008–09. Based on our analysis, we conclude that although some of the departments have exhibited more progress than others, none of the four are fully prepared to administer Recovery Act funding.

Representatives from each of the four departments generally stated that, where applicable, they planned to rely on internal controls already in place for existing federal programs to administer Recovery Act funding. According to the U.S. Office of Management and Budget's (OMB) February 18, 2009, initial implementing guidance for the Recovery Act, accountability objectives for implementing the Recovery Act include ensuring that funds are used for authorized purposes; mitigating the potential for fraud, waste, error, and abuse; and ensuring the recipients and uses of all Recovery Act funds are transparent to the public and the public benefits of these funds are reported clearly, accurately, and in a timely manner.

Analysis Highlights . . .

Our analysis of the State's applicable activities and internal controls at four state departments expected to receive significant amounts of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds revealed the following:

- *Some departments have made more progress than others in preparing for receiving, spending, and reporting the Recovery Act funds, but none are fully prepared.*
- *All four departments intend to rely on internal controls already in place for existing federal programs to administer Recovery Act funding—yet our most recent Single Audit report covering fiscal year 2007–08 identified several internal control weaknesses at all four departments.*
- *Some of the departments are uncertain as to whether they will be able to meet some reporting requirements while others believe they are exempt from certain reporting requirements.*
- *All four departments, as well as the California Federal Economic Stimulus Task Force (Task Force), have requested additional guidance from the federal government that they have yet to receive.*
- *The Task Force has provided some general guidance for securing and applying for funds, but needs to provide more guidance for administering Recovery Act funding.*

[1] The federal Recovery Web site defines accountability as providing data that will allow citizens to evaluate the Recovery Act's progress and provide feedback.

[2] The federal Recovery Web site defines transparency as showing how, when, and where Recovery Act funds are spent.

[3] What we refer to as federal programs are actually individual federal financial assistance awards that provide funding for an existing or new federal program or a component of a federal program.

Although relying on existing internal controls is a reasonable approach, our Single Audit report covering fiscal year 2007–08[4] noted 30 internal control weaknesses related to certain OMB Circular A-133 compliance requirements and federal programs for which the four departments we assessed expect to receive Recovery Act funds in fiscal years 2008–09 and 2009–10. For example, Social Services' processes for reviewing and authorizing counties' expense and assistance claims for the Temporary Assistance for Needy Families program does not provide reasonable assurance that federal funds were expended only for allowable activities and costs. Additionally, EDD did not adequately monitor subrecipients of federal funds during the award period. For example, EDD did not conduct any on-site reviews of community-based organizations that received a total of $83.5 million in federal funding for the Workplace Investment Act programs in fiscal year 2007–08. As a result, Social Services and EDD cannot ensure that their respective subrecipients are or will be spending Recovery Act funds only on allowable activities. During our analysis, we noted that the four departments' progress in correcting the 30 internal control weaknesses is limited—the departments appear to have corrected only four, are still in the process of correcting 22, and have taken minimal or no action for the remaining four. Consequently, without correcting these internal control deficiencies, relying on existing internal controls may not provide sufficient assurance that Recovery Act funding is properly administered.

Some of the departments we evaluated stated that they are uncertain as to whether they will be able to meet the new reporting requirements established under Section 1512 of the Recovery Act that apply to many programs. For example, officials at Education acknowledged that the department was still waiting for guidance on performance reporting pursuant to Section 1512 of the Recovery Act. Reporting provisions oblige departments to report information to the federal government regarding the total amount of Recovery Act funds received, obligated, or spent and performance data such as the number of jobs created and preserved by projects or activities using Recovery Act funds. Although the departments indicated that they plan to use existing mechanisms to meet the requirements for reporting financial data, each indicated that it was either awaiting further guidance from the federal government regarding how to satisfy the requirement for reporting performance data or seeking guidance on other Recovery Act provisions. If departments are not successful obtaining this guidance from the federal oversight agencies soon, it may be too late to take the appropriate actions necessary to implement the reporting provisions of the Recovery

[4] *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008*, Report 2008-002 (May 2009).

Act correctly. Further, certain departments that administer entitlement or mandatory programs believe they are exempt from Section 1512 reporting requirements, but are seeking additional guidance from the State or federal government to confirm their belief.

Finally, we examined the efforts of the California Federal Economic Stimulus Task Force (Task Force) to help departments prepare to administer the Recovery Act. Although it has provided general guidance for securing Recovery Act funds and administering the Recovery Act, we believe the Task Force should provide a more detailed framework for administering Recovery Act funding. Ideally, it would provide explicit direction regarding the systems or processes departments need to administer Recovery Act funding. Recognizing the variety of federal programs the departments administer, a one-size-fits-all, detailed approach likely would not be practical. However, the Task Force could offer a broad framework within which departments can operate that would allow the flexibility necessary for each to administer its federal programs. This framework could include direction on how to coordinate with the State Controller's Office (State Controller) to establish a unique account number for tracking the receipt of Recovery Act funds separately from other federal funds coming to California and an agenda or list of topics departments should discuss with their staff when providing training on how to administer Recovery Act funding. Additionally, once the OMB informs the Task Force whether the Recovery Act's Section 1512 reporting requirements apply to both the recipient and subrecipient or just the recipient, the Task Force could provide an example of the type of language departments should include as part of their terms and conditions of an award to require subrecipients to meet Section 1512 reporting requirements.

Recommendations

We recommend that to strengthen the State's preparedness to administer Recovery Act funding, the Task Force should do the following:

- Continue in its leadership role in seeking guidance from the OMB and other pertinent federal agencies. In addition, the Task Force should coordinate its efforts to determine which state departments are waiting for guidance, the federal agencies from which the departments are seeking guidance, and the status of such requests.

- Continue to raise concerns with the OMB and other federal agencies regarding Section 1512 reporting requirements.

- Establish a process to ensure that state departments with known internal control weaknesses take the necessary steps to promptly correct such deficiencies. This process should also include a mechanism to track the status of departments' implementation of corrective action plans developed as a result of audits, reviews, or analyses conducted by the State Auditor's Office (State Auditor), the Department of Finance (Finance), the U.S. Government Accountability Office (GAO), or each department's respective federal inspector general.

- Provide specific guidance to state departments, including the following:

  - Steps departments should take to coordinate with the State Controller in establishing unique account codes to track the receipt of Recovery Act funds separately from other federal funds.

  - Topics departments should discuss with their respective staff when training them on how to administer Recovery Act funds.

  - Examples of language departments should include in their terms and conditions of grant awards or contracts to assure that subrecipients, if required, are aware of specific Recovery Act provisions, particularly Section 1512 reporting requirements.

State departments should do the following:

- Promptly correct internal control deficiencies, including those identified during the Single Audit covering fiscal year 2007–08 and through other audits, reviews, or analyses conducted by state and federal agencies, such as the State Auditor, Finance, the GAO, and each federal agency's respective inspector general.

- Establish a process to track its progress in implementing any corrective action plans developed as a result of audits, reviews, or analyses conducted by the State Auditor, Finance, the GAO, or each federal agency's respective inspector general.

- Work with the Task Force to ensure that grants and contracts include specific language that informs subrecipients of the Recovery Act's provisions, including Section 1512 reporting requirements, if required.

- Modify policies and procedures to ensure that they reflect specific Recovery Act provisions.

- Provide staff with appropriate training to ensure they are aware of new policies and procedures necessary to administer Recovery Act funding.

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Introduction

Background

On February 17, 2009, the federal government enacted the American Recovery and Reinvestment Act of 2009 (Recovery Act) to help fight the negative effects of the United States' economic recession.[5] According to the Recovery Act, its purposes include preserving and creating jobs; promoting economic recovery; assisting those most affected by the recession; investing in transportation, environmental protection, and other infrastructure; and stabilizing state and local governmental budgets. To achieve these purposes, the Recovery Act requires federal agencies to initiate expenditures and activities as quickly and prudently as possible; for certain programs, Recovery Act funds are available only until September 2010.

According to the federal Recovery Web site, the federal government intends to provide $787 billion to recipients under the Recovery Act, including $288 billion in the form of tax benefits. A large portion of the remaining funds will be dispersed to states, local governments, territories, and tribes, which in turn will distribute funds to beneficiaries through grants, contracts, subsidies, and loan programs. According to the Council of State Governments, the Recovery Act provides over $300 billion in potential funding for states and state-related programs. This funding includes almost $100 billion in flexible funding that replaces state spending, as much as $130 billion in formula funding that supplements state spending, and up to $100 billion in competitive grant funding opportunities. For a state to be eligible to receive these funds, Section 1607(a) of the Recovery Act requires the governor to certify not later than 45 days after the date of enactment that the state will request and use funds provided by the act and that the funds will be used to create jobs and promote economic growth. California's governor completed this certification process on March 5, 2009.

Accountability[6] and transparency[7] are the cornerstones of the Recovery Act. For example, Section 1521 of the Recovery Act established the Recovery Accountability and Transparency Board (Recovery Board), which consists of a chair appointed by the president and 10 federal inspectors general specified in Section 1522,

[5] According to the National Bureau of Economic Research (NBER), a nonprofit economic research organization, the economy has been in recession since December 2007. NBER defines a recession as a significant decline in economic activity spread across the economy, normally visible in production, employment, real income, and other indicators, which lasts more than a few months.

[6] The federal Recovery Web site (http://www.recovery.gov) defines accountability as providing data that will allow citizens to evaluate the Recovery Act's progress and provide feedback.

[7] The federal Recovery Web site defines transparency as showing how, when, and where Recovery Act funds are spent.

to coordinate and conduct oversight of covered funds to prevent fraud, waste, and abuse. According to Section 1523(a), the Recovery Board's responsibility for performing oversight includes auditing or reviewing covered funds to determine whether wasteful spending, poor contract or grant management, or other abuses are occurring and referring matters it considers appropriate for investigation to the inspector general for the federal agency that distributed the covered funds. According to Section 1523(b), the Recovery Board must submit to the president and Congress reports on potential management and funding problems that require immediate attention, quarterly reports summarizing the findings of the Recovery Board and the findings of inspectors general of federal agencies, and annual reports consolidating applicable quarterly reports on the use of covered funds. The Recovery Board must also make recommendations to federal agencies on measures to prevent fraud, waste, and abuse relating to covered funds, as required by Section 1523(c). Finally, Section 1528 states that the Recovery Board shall coordinate its oversight activities with the comptroller general of the United States and state auditors.

Accountability Objectives for Implementing the American Recovery and Reinvestment Act of 2009

- American Recovery and Reinvestment Act of 2009 (Recovery Act) funds are awarded and distributed in a prompt, fair, and reasonable manner.
- The recipients and uses of all Recovery Act funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are mitigated.
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

Source: U.S. Office of Management and Budget's *Initial Implementing Guidance for the Recovery Act*, February 18, 2009.

The U.S. Office of Management and Budget (OMB) further highlighted the need for accountability in its February 18, 2009, initial implementing guidance for the Recovery Act, which directed federal agencies to immediately take critical steps to meet the accountability objectives defined in the text box.

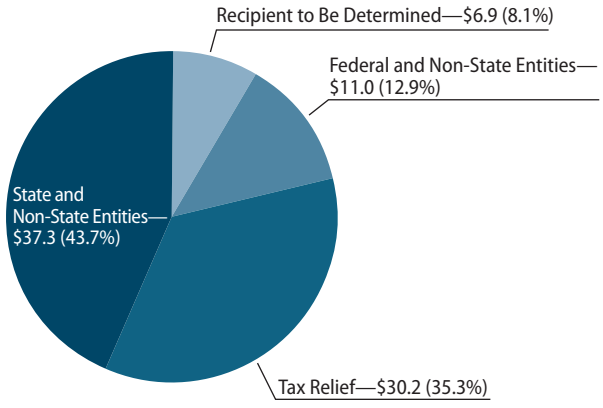
To facilitate the president's commitment to accountability and transparency, the Recovery Act imposes significant reporting requirements on entities that receive Recovery Act funds as well as penalties for noncompliance. For instance, Section 1512(c) requires certain recipients to submit to the federal government a report containing several pieces of information not later than 10 days after the end of each calendar quarter. The act also mandates that as a condition of receiving funds, federal agencies will require these recipients to provide this information. The required information includes the amount of Recovery Act funds received; the amount of Recovery Act funds spent or obligated; a detailed list of the projects on which recipients spent or obligated Recovery Act funds; an estimate of the jobs created and the number of jobs retained by the project or activity; and the infrastructure investments made by the recipients. Section 1512(d) requires federal agencies that made Recovery Act funds available to certain recipients to make the information in these reports publicly available by posting the information on a Web site.

On April 3, 2009, the OMB updated its initial implementing guidance. The OMB intended this second installment of government-wide guidance to clarify existing provisions and establish additional steps that must be taken to facilitate the accountability and transparency objectives of the Recovery Act. Among other things, this guidance noted that Section 1512 reporting requirements only apply to nonfederal recipients who receive funding through discretionary appropriations and that the requirements do not apply to entitlement or other mandatory programs, except as specifically required by the OMB. However, the OMB did not define an entitlement or mandatory program, nor did it specifically identify which programs are considered to be entitlements or mandatory. The Recovery Board established the federal Recovery Web site to serve as a portal for key information relating to the Recovery Act and to provide connections to other government Web sites with related information.

California's Expected Share of Recovery Act Funds

California stands to receive a large share of the funds being made available under the Recovery Act. According to the California Economic Recovery Portal Web site (State Recovery Portal), as of May 28, 2009, California's share of the Recovery Act funds is estimated to be $85.4 billion. Figure 1 shows the anticipated allocation of these funds.

Figure 1
Breakdown of the Total Amount of Federal Funds California Is Expected to Receive Under the American Recovery and Reinvestment Act of 2009
(Dollars in Billions)



Source: Bureau of State Audits' analysis of data obtained from the California Economic Recovery Portal Web site, http://recovery.ca.gov, as of May 28, 2009.

Note: California is expected to receive $85.4 billion under the American Recovery and Investment Act of 2009.

The State Recovery Portal was updated on May 28, 2009, and no longer shows Recovery Act funds by fiscal year. However, as shown in the second and third columns of Table 1, on April 13, 2009, the State Recovery Portal indicated that as many as 14 state entities could receive Recovery Act funds in fiscal year 2008–09, and as many as 22 state entities could receive Recovery Act funds in fiscal year 2009–10. At least four of these entities are expected to receive over $300 million each in fiscal year 2008–09. Collectively, the Office of the Secretary of Education (OSE), the Governor's Office of Planning and Research (OPR), and the Department of Finance (Finance) are expected to receive a total of $5.2 billion, the largest share of Recovery Act funds coming to California. As of April 13, 2009, according to the State Recovery Portal, the majority of these funds will be allocated to one program to restore funding for education to the greater of 2008 or 2009 funding levels. Although the State Recovery Portal shows OSE, OPR, and Finance as the entities responsible for these funds, we learned that of the $5.2 billion, the Department of Education (Education) will administer $3.7 billion of these funds. Likewise, the Department of Health Care Services (Health Care Services) is expected to receive nearly $3.3 billion, the second largest share of Recovery Act funds coming to California, to provide supplemental federal funding for allowable Medicaid expenditures under the temporary increase of Medicaid Federal Medical Assistance Percentages program. Finally, of the nearly $2.5 billion the Employment Development Department (EDD) is expected to receive, $2.1 billion will be allocated to three components of the Unemployment Insurance program to temporarily extend the length of time an individual may receive unemployment benefits and to provide an increase in the amount of weekly benefits an unemployed individual is eligible to receive.

Table 1
Amount of Federal Funding That State Departments and Other Entities Are Expected to Receive Under the American Recovery and Reinvestment Act of 2009
(Dollars in Millions)

	PER THE CALIFORNIA ECONOMIC RECOVERY PORTAL WEB SITE AS OF:		
	APRIL 13, 2009		MAY 28, 2009
RESPONSIBLE STATE DEPARTMENT AND OTHER IDENTIFIED ENTITIES*	AMOUNTS FOR FISCAL YEAR 2008–09	AMOUNTS FOR FISCAL YEAR 2009–10	AMOUNTS FOR ALL FISCAL YEARS†
Secretary of Education, Office of Planning and Research, and Department of Finance	$5,202.5‡	$4,337.7	$4,875.5‡
Department of Health Care Services	3,286.9	4,496.9	12,154.0
Employment Development Department	2,493.5	4,531.5	4,931.0
Department of Social Services	332.4	891.8	2,706.0
Department of Community Services and Development	182.9	92.9	275.0
Department of Rehabilitation	40.4	28.3	68.6
Department of Developmental Services	28.2	28.3	53.2
Department of Child Support Services	20.4	27.7	54.4

RESPONSIBLE STATE DEPARTMENT AND OTHER IDENTIFIED ENTITIES*	PER THE CALIFORNIA ECONOMIC RECOVERY PORTAL WEB SITE AS OF: APRIL 13, 2009 — AMOUNTS FOR FISCAL YEAR 2008–09	APRIL 13, 2009 — AMOUNTS FOR FISCAL YEAR 2009–10	MAY 28, 2009 — AMOUNTS FOR ALL FISCAL YEARS†
California Conservation Corps	14.7	No Information Provided	0§
Office of Planning and Research	10.3	0	13.5
California Department of Aging	6.9	4.9	21.8
Air Board	1.7	0	26.0
Arts Council	0.5	0.5	5.0
California Department of Transportation	0	780.0	2,569.6
California Tax Credit Allocation Committee	0	612.9	6.9
California Emergency Management Agency	0	375.5	332.9
Water Board	0	302.6	295.9
Energy Commission	0	295.0	577.8
Department of Public Health	0	160.0	1,145.5
Housing and Community Development	0	55.1	312.4
Department of Forestry and Fire Protection	0	25.0	54.5
Managed Risk Medical Insurance Board	0	10.0	0‖
Toxic Substances Control	0	10.0	10.0
Secretary of Education	0	0	3,547.4
Secretary of Education, Office of Planning and Research	0	0	1084.8#
California High-Speed Rail Authority, Department of Transportation	0	0	800.0
Office of the Chief Information Officer	0	0	389.0
Health and Human Services Agency	0	0	200.0
State Controller's Office	0	0	100.0
California Conservation Corps, Department of Conservation	0	0	58.1
Office of Statewide Health Planning and Development	0	0	50.0
Military Department	0	0	26.7
Business, Transportation, and Housing Agency	0	0	15.8
State department(s) not identified	0	300.0	513.0
Other**	2,632.0	3,583.6	17,966.8
Totals	**$14,253.3**	**$20,950.2**	**$55,241.1**

Source: Bureau of State Audits' analysis of data obtained from the California Economic Recovery Portal Web site (State Recovery Portal), http://recovery.ca.gov.

* Recovery Act funds will go entirely to the identified state department or will be shared among state departments and non-state entities.

† We obtained these amounts from the State Recovery Portal on May 28, 2009. Before this date, the State Recovery Portal specified the fiscal year for the amount shown. On May 28, 2009, the California Federal Economic Stimulus Task Force updated the State Recovery Portal and included only the total amount of California's estimated share of funds from the American Recovery and Reinvestment Act of 2009.

‡ Office of Planning and Research entered into an interagency agreement with the Department of Education to administer $2,565 million of these funds.

§ As of May 28, 2009, the responsible state department for these funds appears to be the California Conservation Corps and the Department of Conservation, as indicated later in this table.

‖ As of May 28, 2009, the State Recovery Portal no longer listed funds for the Managed Risk Medical Insurance Board.

Office of Planning and Research entered into an interagency agreement with the Department of Corrections and Rehabilitation to administer these funds.

** The dollar amounts shown here include those amounts the State Recovery Portal shows will go to federal or non-state entities and those amounts for which a recipient has yet to be determined.

Main Program Areas Through Which Funding Will Flow Under the American Recovery and Reinvestment Act of 2009

- Health and Human Services/Health Information Technology
- Transportation
- Housing
- Energy
- Environment/Water Quality
- General Government
- Education
- Labor
- Broadband

Source: California Economic Recovery Portal Web site, http://recovery.ca.gov, as of May 14, 2009.

Recent Actions California Has Taken Regarding Recovery Act Funds

California recently took two steps to better ensure that the State's spending of Recovery Act funds is accountable and transparent. On March 26, 2009, the governor announced the creation of the California Federal Economic Stimulus Task Force (Task Force), whose responsibilities include tracking the Recovery Act funding the State receives; working with the president's administration; assisting cities, counties, nonprofits, and others to access funds that are potentially available to them under the Recovery Act; ensuring that Recovery Act funds funneled through the State are spent efficiently and effectively; and maintaining a Web site that is frequently and thoroughly updated for Californians to be able to track Recovery Act funds. Representatives from the governor's office and Finance comprise the Task Force's leadership body. Additionally, as shown in the text box, the Task Force includes one representative from the administration for each of the nine main program areas through which Recovery Act funding will flow.

In addition to the Task Force, on April 3, 2009, the governor announced the creation of the position of Recovery Act inspector general to act as "watchdog" over Recovery Act funds as they are dispersed in California. According to the executive order that created the position, the Recovery Act inspector general's responsibilities include protecting the integrity and accountability of the expenditure of Recovery Act funds in California by preventing and detecting fraud, waste, and misconduct in the use of those funds; conducting periodic reviews and audits to ensure state and local government compliance with the federal provisions of the Recovery Act and applicable state law; and providing independent and objective reports to the governor, the Legislature, the U.S. Government Accountability Office (GAO), and the Recovery Board on the activities and findings of the reviews and audits, including any identified program and management problems as they relate to use of the Recovery Act funds in California and recommendations to correct them. Reports by the Recovery Act inspector general shall be posted on a Web site to provide accountability and transparency to the public.

Scope and Methodology

California Government Code, Section 8546.5, authorizes the Bureau of State Audits to establish a process for identifying state agencies or issues that are at high risk for potential waste, fraud, abuse, and mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness. In April 2009 we designated the State's system for administering Recovery Act funds as a statewide high-risk issue. Under our authority to review high-risk areas, we decided to assess the State's preparedness to administer Recovery Act funding. Specifically, we assessed the status of internal controls for administering the Recovery Act funds at four state departments.

To gain a better understanding of this high-risk issue, we reviewed the Recovery Act, applicable issues of the Federal Register, reports issued by the GAO, and the March 2009 Circular A-133 Compliance Supplement and other guidance issued by the OMB. We also reviewed information posted on the federal Recovery Web site and the State Recovery Portal.

To identify guidance the State has provided to departments regarding their administration of Recovery Act funds, we interviewed members of the Task Force. Additionally, we reviewed two Recovery Act bulletins the Task Force issued to departments as of May 2009 and two letters the Task Force wrote in response to an OMB questionnaire and notice for information collection activities. Finally, the Task Force directed Finance to conduct oversight and accountability readiness reviews for Recovery Act funding at state entities. We examined the results of these readiness reviews for six of these entities.[8]

To select the departments we evaluated, we relied on financial data from the State Recovery Portal, as of April 13, 2009, to identify those departments for which the Task Force expected the State to receive $300 million or more in Recovery Act funds by the end of fiscal year 2008–09.[9] We identified four departments meeting this criterion: Education,[10] Health Care Services, EDD, and the Department of Social Services. We further refined our scope to focus only on those federal programs for which the Task Force expected a state department to receive or be awarded $50 million

[8] As of June 12, 2009, Finance completed three additional reviews, including two departments we evaluated.

[9] On May 28, 2009, the Task Force updated this financial data. See the fourth column of Table 1 in the Introduction for the revised data covering all fiscal years.

[10] Education has the primary role in administering those federal grants for which the State Recovery Portal shows OSE, OPR, and Finance as being responsible.

or more in Recovery Act funds during the same fiscal year. We summarize this information for each department in Tables 2, 4, 6, and 8 in the Analysis Results section of this report.

To determine the status of departments' preparedness for administering Recovery Act funds, we examined and followed up on responses to a questionnaire we distributed to the four departments. We developed this questionnaire based on potential risks the OMB identified in its April 3, 2009, updated implementing guidance for the Recovery Act and summarized the results of this questionnaire in Appendix A. To verify the information that the departments provided in their responses to the questionnaire, we interviewed key personnel at each department and reviewed relevant documents pertaining to processes or procedures already in use, developed, or that will be developed by the departments to administer Recovery Act funds.

Finally, to ensure that internal controls used by the four departments we evaluated were sufficient to appropriately administer Recovery Act funds, we examined our most recent Single Audit report covering fiscal year 2007–08 to identify relevant findings citing internal control weaknesses. Our analysis focused on those types of internal controls that could potentially affect the State's ability to properly administer Recovery Act funds, such as those over activities allowed, allowable costs, cash management, eligibility, reporting, and subrecipient monitoring. Where applicable, we also interviewed key personnel to identify the status of the corrective actions the departments had taken to resolve each weakness. For those internal control weaknesses the departments indicated they had fully corrected, we performed limited testing to verify whether these assertions were accurate. Appendix B presents, by department and OMB Circular A-133 compliance requirement, the status of actions the four departments have taken to correct select internal control weaknesses reported in the Single Audit covering fiscal year 2007–08.

Analysis Results

The California Federal Economic Stimulus Task Force Coordinates the State's Efforts to Seek Funds, but Could do More to Assist Departments in Administering Recovery Act Funding

Although the California Federal Economic Stimulus Task Force (Task Force) has coordinated with state departments to secure and apply for funds that are potentially available to them under the American Recovery and Reinvestment Act of 2009 (Recovery Act), it has not yet provided specific guidance for reporting on Recovery Act funds. According to the Task Force, it has not provided this guidance because it is awaiting clarification from the federal government. The Task Force has provided general direction to departments regarding accountability through two Recovery Act bulletins (bulletin) issued as of May 2009. However, the Task Force did not provide specific guidance on how to implement the directives of these bulletins. For example, the first bulletin indicated that state departments must be prepared to separately track the receipt and disbursement of Recovery Act funds in their accounting systems. We believe the State could be better served if the Task Force developed a framework to provide more specific direction. Consequently, we believe the Task Force could provide more statewide leadership on administering the Recovery Act.

The Task Force Has Begun Efforts to Aid Departments in Administering Recovery Act Funding

As of May 2009, the Task Force has taken several actions toward achieving its mission. For instance, the Task Force has collaborated with departments to identify funds that are potentially available to them under the Recovery Act and has advised them in applying for these funds. Further, according to the chief operating officer of the Department of Finance (Finance), who as a member of the Task Force is charged with overseeing its accountability and auditing functions, the Task Force has also issued instructions for tracking and monitoring the receipt of Recovery Act funds and other fund information. However, the Task Force has not provided any specific guidance to departments for reporting on Recovery Act funds because it is awaiting guidance from the U.S. Office of Management and Budget (OMB) for clarification on certain aspects of the Recovery Act's Section 1512 reporting requirements. Until it receives such guidance, the Task Force has referred state departments to their respective federal awarding agency to ensure that they understand what reporting requirements those federal agencies may have in addition to OMB requirements.

Proposed Standard Data Elements for Reports Under Section 1512 of the American Recovery and Reinvestment Act of 2009

- The General Section requires information regarding the award and award recipient.
- Sections 1 and 2 require information regarding the project or activity for which American Recovery and Reinvestment Act of 2009 (Recovery Act) funds were awarded.
- Sections 3 and 4 require information regarding certain subcontracts or subawards funded in whole or in part under the Recovery Act.

Source: The U.S. Office of Management and Budget's request for public comments regarding proposed requirements as published in the Federal Register on April 1, 2009.

On April 1, 2009, the OMB posted in the Federal Register a notice for information collection activities inviting the general public and federal agencies to comment on the standard data elements being reviewed under emergency review procedures for use in complying with the reporting requirements under Section 1512 of the Recovery Act (standard data elements). According to the OMB, the standard data elements were developed to serve as a government-wide standard data set for agencies to use in collecting information, as shown in the text box, from recipients of federal grants, cooperative agreements, and loan funds. Once the standard data elements are approved, each federal agency must require its recipients to report the information and data electronically through a central government-wide portal or through an agency information collection process within 10 days after each calendar quarter, unless the data has been filed in a prior reporting period and is still accurate and current.

The Task Force submitted a response on behalf of California to the OMB's notice for information collection activities on April 30, 2009, requesting, among other things, clarification on Section 1512 reporting requirements from the federal government. This response included questions, concerns, and comments that various departments had communicated to the Task Force. The Task Force specifically requested that the OMB develop a standard methodology for estimating job creation and retention whenever actual data is not practical to obtain and clarify which provisions of the Recovery Act are considered discretionary appropriations and which are considered entitlements or mandatory programs in order to identify programs subject to the reporting requirements under Section 1512 of the Recovery Act.

Additionally, on May 13, 2009, the Task Force submitted a letter responding through the National Association of Budget Officers to a questionnaire issued by the OMB. The Task Force suggested that allowing 40 days to capture, validate, and report quarterly data will ensure accurate data without the additional burden of reporting twice, once by compiling estimates and once by providing actual data. Currently, the Recovery Act only allows recipients 10 days after the end of each quarter to submit a Section 1512 report. The Task Force further requested the OMB to clarify whether the standard data element reporting requirements under Section 1512 apply to subrecipients as well as to prime recipients, and to limit subrecipient data to information appropriate and necessary to ensure accountability and transparency. According to the Task

Force, because California's constitution requires all provisions in excess of federal law to be completely funded by the State, it would not be fiscally practical for the State to require subrecipients to provide it with the standard data elements.[11] However, this information is needed to accurately report what is required by the Recovery Act.

The Task Force's Efforts Include Coordination With Finance to Assess Department Readiness

To assist departments in their preparation for complying with the accountability and transparency provisions of the Recovery Act, the Task Force requested Finance to review state entities' readiness to receive and administer Recovery Act funds, with specific emphasis on their accountability and oversight processes. The state entities that Finance included in its original review, which was performed from April 13, 2009, through April 27, 2009, were the Department of Community Services and Development (Community Services and Development), the Employment Development Department (EDD), the California Energy Commission (Energy Commission), the Governor's Office of Planning and Research, the California Department of Transportation, and the State Water Resources Control Board. The Task Force says Finance will perform additional reviews to assess readiness at other departments in the future. In fact, as of June 12, 2009, Finance had completed three additional reviews, including two departments—the Department of Social Services (Social Services) and the Department of Health Care Services (Health Care Services)—that we evaluated.

The Task Force has coordinated with Finance to assess various departments' readiness; however, the reviews are based on interviews and inquiries only.

According to Finance, it relied upon interviews and inquiry of department staff when conducting its review; it did not evaluate documents and reports received from the departments for validity. Although we commend the Task Force for its proactive approach to assessing readiness, without reviewing documents to support their assertions, Finance cannot adequately ensure that departments have the proper accountability and oversight processes in place to administer the Recovery Act funding.

Finance concluded that four of the original six departments it reviewed have adequate accountability and oversight controls in place related to Recovery Act funding, including EDD, one of the departments we assessed. However, Finance's conclusion on the readiness of EDD differs from the results of our analysis. For example, as discussed later in the report, EDD needs to improve its

[11] California's constitution requires the State to provide funds to reimburse local governments for costs arising from the Legislature or any state agency mandating a new program or higher level of service from a local government.

oversight of subrecipients. Additionally, EDD is still in the process of programming some of its financial systems so that it can distinguish Recovery Act funds from other federal funds.

Finance stated that the remaining two departments—the Energy Commission and Community Services and Development—should address concerns and recommendations identified in its readiness review to achieve adequate accountability and oversight readiness. For example, Finance reported that the Energy Commission stated that it does not have an information technology system capable of capturing the proposed Recovery Act standard data elements, nor has it created any specific mechanisms for ensuring data accuracy. Similarly, Finance reported that Community Services and Development stated that it has not conducted a formal self-assessment of risks related to its Recovery Act responsibilities. Finance recommended, among other things, that Community Services and Development conduct a risk assessment and add all provisions related to the Recovery Act to its standard agreements. One of two recommendations directed to the Energy Commission was to assess its resources to determine if they are adequate to administer and report on the large increase of federal funds it received from the Recovery Act. Finally, Finance recommended that all departments continue coordination efforts with state and federal authorities to obtain clear guidance over allowable administrative and overhead expenses, oversight roles and responsibilities for direct funding to localities, if applicable, and additional specific reporting data requirements of the Recovery Act.

Finance requested that departments develop and submit corrective action plans to address the concerns noted in its readiness reviews by May 30, 2009. According to its chief operating officer, as of June 9, 2009, Finance has received the departments' corrective action plans and has discussed departmental plans for improvement. Further, the chief operating officer stated that Finance will conduct detailed follow-up audits and reviews to address the findings and recommendations it reported in its readiness reviews and will ensure that the departments' corrective action plans are being implemented.

The Task Force Could Provide More Specific Guidance to State Departments

Although the Task Force issued two bulletins to departments in May 2009 to provide general guidelines on the Recovery Act's accountability provisions, it did not provide any specific direction on how to implement these guidelines. On May 18, 2009, the Task Force issued the first bulletin to communicate ongoing accountability guidance for California's receipt and control of Recovery Act funds. Among other things, the bulletin indicates that departments must be

prepared to separately track the receipt and disbursement of Recovery Act funds in their accounting systems; provide training regarding proper grant management and accountability; develop clear and informative information-reporting systems; and develop tracking mechanisms for specific Recovery Act standard data elements, including the number of jobs created.

The Task Force issued the second bulletin on May 29, 2009, to communicate recent federal guidance regarding reporting and accountability for the State's receipt and control of Recovery Act funds. The bulletin indicates that if Recovery Act funds are awarded to subrecipients through an existing program, the award document and the disbursement documents shall distinguish the Recovery Act funds from other federal funds; that departments should maintain documentation to identify each subrecipient, the award amount, and projects funded through the Recovery Act; and that departments that award Recovery Act funds through contracts, loans, grants, or other agreements should ensure that the award documentation includes terms and conditions that require the subrecipient to meet the performance and Section 1512 reporting requirements identified by the respective federal agencies from which the funds originate.

The Task Force has issued two bulletins to departments in which it provides general direction regarding the administration of Recovery Act funds, but did not include any specific guidance on how to implement the directives in the bulletins.

Although the bulletins provide general direction to the departments charged with administering Recovery Act funds, they did not include any specific guidance on how to implement the directives included in the bulletins. The Task Force has discussed this and anticipates providing additional instruction as further guidance from the federal government becomes available. However, we believe the Task Force could still provide more statewide leadership on implementing the Recovery Act. Ideally, it would provide explicit direction to departments regarding the systems or processes they need to administer Recovery Act funding. Recognizing the variety of federal programs the departments administer, a one-size-fits-all, detailed approach likely would not be practical. However, the Task Force could offer a broad framework within which they can operate that allows the flexibility necessary for each department to administer its federal programs. This framework could include directions on how to coordinate with the State Controller's Office (State Controller) to establish a unique account number for tracking the receipt of Recovery Act funds separately from other federal funds coming to California and an agenda or list of topics departments should discuss with their staff when providing training on how to properly administer Recovery Act funding. Additionally, once the OMB informs the Task Force whether the Recovery Act's Section 1512 reporting requirements apply to both the recipient and subrecipient or just the recipient, the Task Force could provide an example of the type of language departments should include as part of their terms and conditions of an award to require subrecipients to meet these reporting requirements.

Without providing specific instruction on how to implement the directives of the Recovery Act bulletins, the State lacks assurance that departments will properly administer Recovery Act funding.

Finally, according to Finance's chief operating officer, the Task Force is in the process of developing an inventory of standard data elements to define the reporting requirements that apply to each state entity. The Task Force intends to create a database that will compile and summarize this information for each department in order to meet the requirement for quarterly reporting of the required data elements under Section 1512 of the Recovery Act. The Task Force plans to post this information on the California Economic Recovery Portal Web site (State Recovery Portal). According to Finance's chief operating officer, as of May 19, 2009, the Task Force has yet to determine the expected date of completion for this data inventory because, in part, it is dependent on the federal government completing its list of reporting requirements.

The Task Force has yet to determine the expected date of completion for creating a database that will compile and summarize information for each department in order to meet the requirement for quarterly reporting under Section 1512 of the Recovery Act.

The Department of Education Needs to Address Internal Control Weaknesses and Needs Further Recovery Act Guidance

The Department of Education (Education) is moderately prepared to administer Recovery Act funding because, although it has some necessary processes in place, it is waiting for guidance before it begins to implement others and it needs to correct internal control weaknesses. For example, Education has established separate resource codes for the Recovery Act grant awards using unique identifiers within the standardized account code structure to ensure that Recovery Act funds are clearly distinguishable. Additionally, according to Education, it will use its existing apportionment process to distribute some Recovery Act funds to local educational agencies (LEAs) to ensure that Recovery Act funds are awarded in a prompt, fair, and reasonable manner. According to Education, it will use a formula driven allocation process to award grants to all Special Education Local Plan Areas. However, more work is needed in some critical areas. According to Education, for two of the three programs we evaluated, it monitors LEAs for state and federal program and fiscal compliance through the categorical program monitoring (CPM) and auditing processes. However, according to Education, the CPM monitors each LEA only once every four years. Although they do not qualify as adequate *during-the-award* monitoring, Education noted that the LEAs also receive annual OMB Circular A-133 audits. These audits are required to be completed within nine months after the fiscal year being audited. Consequently, because the OMB Circular A-133 audits are performed after the funds have already been spent, they do not satisfy the *during-the-award* monitoring requirement contained in the OMB's Circular A-133 compliance supplement. *During-the-award* monitoring is monitoring that

occurs throughout the year. Education also has concerns about the Recovery Act's Section 1512 quarterly reporting requirements, and until it receives guidance from the OMB, it believes it will be difficult to know whether it can prepare these reports on a timely basis. Education submitted its concerns to the OMB and is waiting for guidance on whether, under Recovery Act, Section 1512, LEAs must provide the standard data elements required or whether the prime recipient (in this case, Education) may report the best available data for the Section 1512 reporting requirements.

Information from the State Recovery Portal as of April 13, 2009, indicate that Education's estimated share of Recovery Act funds will be approximately $4.4 billion for fiscal year 2008–09 for three federal programs it administers. Table 2 displays how funds will be allocated among three federal programs that Education administers. The Task Force expects that approximately 74 percent of the $4.4 billion will be used to restore funding for K-12, higher education, and special education grants to the greater of 2008 or 2009 funding levels.

Table 2
The Department of Education's Use of Its Estimated Share of Federal Funds Under the American Recovery and Reinvestment Act of 2009 for Fiscal Year 2008–09
(Dollars in Millions)

FEDERAL PROGRAM	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	RECOVERY ACT FUNDS THE FEDERAL PROGRAM IS EXPECTED TO RECEIVE	RECOVERY ACT FUNDS FOR WHICH EDUCATION APPLIED	RECOVERY ACT FUNDS THE FEDERAL GOVERNMENT AWARDED	RECOVERY ACT FUNDS EDUCATION RECEIVED THROUGH APRIL 30, 2009*	RECOVERY ACT FUNDS EDUCATION SPENT THROUGH APRIL 30, 2009†
State Fiscal Stabilization Fund—state allocations—restoration of K-12 and CSU/UC	84.394	$3,266.6	‡	$2,565.0§	$0.0	$0.0
IDEA—Part B—special education grants	84.389	613.4	NA	613.5	0.0	0.0
Title I—Grants to local educational agencies and school improvement (targeted grant, finance incentive grant, and school improvement grant)	84.391	564.0	NA	562.5	0.0	0.0
Totals		**$4,444.0**		**$3,741.0**	**$0.0**	**$0.0**

Sources: California Economic Recovery Portal Web site, http://recovery.ca.gov, as of April 13, 2009; and accounting records maintained by the Department of Education (Education) and the Governor's Office of Planning and Research (OPR).

NA = Not applicable.

* This represents the amount of Recovery Act funds Education has drawn down from the federal government for fiscal year 2008–09 as of April 30, 2009.

† This represents the amount of Recovery Act funds Education has either spent on its own behalf or provided to subrecipients for fiscal year 2008–09 as of April 30, 2009.

‡ While Education is responsible for the distribution, it did not submit the application for these funds. Pursuant to Section 14005 of the Recovery Act, the governor is the party responsible for submitting the application for these funds. The governor of California submitted this application on April 9, 2009. Furthermore, the governor was not required to request a particular amount of funding. Recovery Act funds awarded for this program were based on a formula pursuant to Section 14001(d) of the Recovery Act.

§ The Recovery Act requires the governor to apply for California's share of funds under the act's State Fiscal Stabilization Fund. The governor applied for these funds on April 9, 2009, and the U.S. Department of Education awarded $3,266 million to the State on April 17, 2009. OPR entered into an interagency agreement with Education to distribute approximately $2,565 million of these funds to local educational agencies for K-12. OPR plans to enter into similar interagency agreements with the University of California and California State University to disburse the remaining funds.

California's public education system is administered at the state level by Education, under the direction of the State Board of Education and the superintendent of public instruction (superintendent), to educate approximately 6.3 million students. 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. According to Education's deputy state superintendent of the government affairs branch and other staff, the department has a number of executives and top-level management from different branches who will manage the overall implementation activities for the Recovery Act funding. However, Education stated that this internal Recovery Act working group is not a formal governance body. The deputy state superintendent of the government affairs branch has held weekly informal meetings with the Education representative to the Task Force to discuss the Recovery Act; any relevant information discussed is then provided to the internal Recovery Act working group, which in turn relays the necessary information to the working group members' staff. Education also communicates with representatives from the Office of the Secretary of Education (OSE) and Finance as needed, either by phone or through face-to-face meetings.

Existing Internal Controls That Education Intends to Use in Administering Recovery Act Funding Are Weak

Education has not fully corrected nine of the 12 internal control weaknesses we identified in our most recent Single Audit report covering fiscal year 2007–08, yet intends to use these existing processes, procedures, and internal controls to administer Recovery Act funding.

Education stated that it intends to use existing processes, procedures, and financial and operational systems that constitute internal controls to administer Recovery Act funding. However, our review of the status of internal control weaknesses identified in our *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008* (2008-002) (Single Audit) report covering fiscal year 2007–08 revealed 12 internal control weaknesses that may affect Education's ability to administer Recovery Act funds. Table 3 displays select internal control weaknesses at Education for federal programs that are expected to receive $50 million or more under the Recovery Act during fiscal years 2008–09 and 2009–10. Education has not fully corrected nine of these 12 weaknesses and has taken minimal or no action to correct two of the nine weaknesses. For example, we reported that Education disbursed over $1.6 billion to LEAs during the fiscal year ended June 30, 2008, with no assurances that these subrecipients minimized the time between the receipt and disbursement of federal funds.

In addition, in its March 2009 report regarding Education's cash management practices, the inspector general for the U.S. Department of Education (DOE) stated Education has yet to implement an agency-wide cash management system that minimizes the time elapsing between LEA receipt and disbursement of federal education

Table 3

Single Audit Internal Control Weaknesses for Federal Programs at the Department of Education That Are Expected to Receive $50 Million or More Under the American Recovery and Reinvestment Act of 2009 for Fiscal Years 2008–09 and 2009–10
(Dollars in Millions)

FEDERAL PROGRAM	AMOUNT OF RECOVERY ACT FUNDS THE STATE EXPECTS TO RECEIVE IN FISCAL YEAR 2008–09	AMOUNT OF RECOVERY ACT FUNDS THE STATE EXPECTS TO RECEIVE IN FISCAL YEAR 2009–10	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	AREA WHERE THE INTERNAL CONTROL WEAKNESS WAS IDENTIFIED					TOTALS
				ACTIVITIES ALLOWED/ ALLOWABLE COSTS	CASH MANAGEMENT	ELIGIBILITY	REPORTING	SUBRECIPIENT MONITORING	
State Fiscal Stabilization Fund—state allocations—restoration of K-12 and CSU/UC	$3,266.6	$1,608.9	84.394	*	*	*	*	*	*
IDEA—Part B—special education grants	613.4	613.5	84.391†	0	0	0	0	3	**3**
Title I—Grants to local educational agencies and school improvement (targeted grant, finance incentive grant, and school improvement grant)	564.0	947.3	84.389†	0	3	0	1	2	**6**
State Fiscal Stabilization Fund—incentive grants (also known as "Race to the Top")	0.0	435.0	84.395	*	*	*	*	*	*
Child Care and Development Block Grant	0.0	222.0	93.575	0	2	0	0	1	**3**
Title II—Education Technology	0.0	70.8	84.386	*	*	*	*	*	*
Totals	**$4,444 .0**	**$3,897.5**		**0**	**5**	**0**	**1**	**6**	**12**

Sources: California Economic Recovery Portal Web site (State Recovery Portal), http://recovery.ca.gov, as of April 13, 2009; Bureau of State Audits' *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008* (Single Audit), Report 2008-002, May 2009; and the Catalog of Federal Domestic Assistance (CFDA).

Note: The Department of Education has the primary role in administering those federal grants for which the State Recovery Portal shows the Office of the Secretary of Education, the Governor's Office of Planning and Research, and the Department of Finance as being responsible.

* These are new programs, and therefore, were not included in our Single Audit covering fiscal year 2007–08.

† The federal CFDA number for these two programs will not agree with our Single Audit report covering fiscal year 2007–08. The federal government issued new CFDA numbers for these programs because they will receive funding under the American Recovery and Reinvestment Act of 2009. In the Single Audit report covering fiscal year 2007–08, the Title I program's CFDA number is 84.010 while the Special Education program's CFDA number is 84.027.

funds, despite repeated audit findings over many years. Because it uses an advance payment method for most federal education programs, Education needs a cash management system that ensures federal program cash is disbursed at or about the time that LEAs need to pay federal program costs. According to Education, it has established an internal task force and developed a cash management improvement plan to address deficiencies and ensure compliance with federal cash management requirements. Education stated it is currently in the initial stages of implementing a pilot project of its cash management improvement plan. The Single Audit covering fiscal year 2007–08 identified five internal control weaknesses regarding cash management. Education has not fully corrected three of these weaknesses and for two of those three it has taken minimal or no action to correct the weakness. Until it fully addresses its cash management weaknesses, it cannot be assured that subrecipients will minimize the time between the receipt and disbursement of federal funds.

Education expects to receive Recovery Act funds for two existing federal programs, as well as one new federal program, in fiscal year 2008–09. Education plans to use its existing processes, procedures, and financial and operational systems that constitute internal controls to administer Recovery Act funding. Education told us that though the State Fiscal Stabilization Fund is a new program that will provide funding to LEAs, program funds will be disbursed through Education's current apportionment process.

To comply with Task Force guidance to separately track Recovery Act funds, Education has established separate resource codes within its standardized account code structure to identify funds provided under the Recovery Act. In addition, it requested that the State Controller establish separate accounts for the two programs for which Education received Recovery Act funds directly from the federal government. The Governor's Office of Planning and Research had the State Controller set up an account for the third program we analyzed at Education—the State Fiscal Stabilization Fund. Because the authority to receive federal funds is based on the grant document departments receive from the federal awarding agency, departments must submit a document to the State Controller to establish accounts for the receipt authority of federal funds. These accounts are established for each program using the unique Catalog of Federal Domestic Assistance (CFDA) number.

According to Education, it plans to use its existing monitoring processes from its CPM to oversee the Recovery Act funds it receives for two of the three programs we evaluated. However, according to Education, CPM monitors each LEA only once every four years. Although they do not qualify as adequate *during-the-award* monitoring, Education noted that the LEAs also received annual OMB Circular A-133 audits. *During-the-award* monitoring is monitoring that occurs throughout the year. The audits are required to be completed within nine months after the fiscal year being audited. Consequently, because OMB Circular A-133 audits are performed after the funds have already been spent, they do not satisfy *during-the-award* monitoring. Education stated that it will need additional resources if the federal government requires monitoring as the activities and expenditures are occurring. According to Education, it will submit a waiver, as allowable under the Recovery Act, to access additional administrative dollars. According to Education's director of audits and investigations, if Education were to receive additional administrative funds for monitoring, it would most likely be used for developing Recovery Act monitoring procedures, monitoring travel costs, and possible overtime costs of existing staff. Additionally, the director of audits and investigations stated that Education has already shifted staff responsibilities and priorities to manage Recovery Act funding and additional administrative funds would be immediately used. In addition to concerns regarding the frequency of its monitoring activities, we reported weaknesses in its process for monitoring subrecipients in our Single Audit report covering fiscal year 2007–08. We identified and reported six internal control weaknesses related to its existing subrecipient monitoring process. Five of those six weaknesses have not been fully corrected. To ensure that its existing monitoring procedures are effective for the Recovery Act funds, it must fully correct the reported control weaknesses.

Education believes it will need additional resources if the federal government requires monitoring as the activities and expenditures are occurring because it currently monitors local educational agencies only once every four years.

Education Is Still Waiting for Clarification on Recovery Act Requirements

Education also intends to use existing systems for its performance reporting, but it is currently awaiting guidance from the federal government concerning the Recovery Act's Section 1512 performance reporting requirements. According to Education, it does not yet know the types of reports it will be required to prepare, so it is difficult to state whether Education will prepare them on a timely basis. Education also stated that it would be a huge workload for Education to report on a quarterly basis 10 days after the end of the quarter considering the large number of LEAs receiving Recovery Act funds and the fact that Education does not currently report on a quarterly basis.

In a letter to OMB, Education stated that there are over 1,000 local educational agencies in California, most of which will receive Recovery Act funds, and expressed concerns about meeting the reporting deadlines.

Additionally, Education does not know whether it would be required to seek LEA-level information quarterly. It submitted comments to the OMB on May 1, 2009, requesting clarification on whether, under Section 1512 of the Recovery Act, LEAs must provide the standard data elements required or whether the prime recipient (Education) may report the best available data. In its comments submitted to the OMB, Education stated there are over 1,000 LEAs in California, most of which will receive Recovery Act funds, and it is concerned about the utility of quarterly narrative information on each LEA's planned use of Recovery Act funds. Specifically, Education noted reporting deadlines of 10 days after the close of each quarter leave little, if any, time for LEA or state review and correction of data. Education questioned how accurate, valid, or reliable the data would be with such a short deadline. As of June 4, 2009, Education stated that it had not yet received a response from the OMB.

In regard to Section 1512 performance reporting, Education stated that DOE has not yet confirmed the metrics that will be used to measure progress in meeting the Recovery Act assurances. Additionally, in its April 30, 2009, comments to the OMB, the Task Force stated that the majority of California state agencies and subrecipients have no experience in collecting and estimating job creation and retention, either by number of jobs or types of jobs. Therefore, the Task Force has requested that the OMB develop a standard methodology for estimating job creation and retention whenever actual data is not practical to obtain.

Table A.1 in Appendix A presents, by programs expected to receive $50 million or more in fiscal year 2008–09, an assessment of Education's preparedness to administer Recovery Act funding for each program. Table B in Appendix B presents, by OMB Circular A-133 compliance requirement, the status of action Education has taken to correct select internal control weaknesses reported in the Single Audit covering fiscal year 2007–08. As shown in Appendix B, of the 12 internal control weaknesses we identified, Education has fully addressed three, is in the process of taking corrective action for seven, and has taken minimal or no action to address the remaining two.

Education provided written comments, as well as verbal comments at our exit conference, recommending specific changes to the report. We made those changes we considered necessary.

Health Care Services Intends to Use Existing Systems to Administer Recovery Act Funds, but Additional Action Is Needed

Health Care Services is mostly prepared to administer Recovery Act funding. For example, it has policies for eligibility determinations and has informed the counties of these changes. For areas where its responsibilities are unclear, Health Care Services has taken the appropriate measure of seeking guidance from its federal control agency, the Center for Medicare and Medicaid Services. Additionally, according to its associate director, Health Care Services has corrective action plan processes in place to promptly resolve any audit weaknesses identified that may impact its ability to administer the Recovery Act. The associate director of Health Care Services stated it has a sufficient level of personnel to manage the Recovery Act program, and that its staff is sufficiently informed about the Recovery Act. Because the Recovery Act merely results in increased federal funding for an existing program, the associate director believes Health Care Services' existing internal controls should be sufficient for ensuring that Recovery Act funds are used for only authorized purposes.

For areas where its responsibilities are unclear, Health Care Services has taken the appropriate measure of seeking guidance from its federal control agency.

However, some areas need more work. For example, Health Care Services is still working on implementing corrective action for 11 internal control weaknesses reported in our Single Audit covering fiscal year 2007–08. Also, although the associate director believes that Section 1512 reporting requirements for the Recovery Act do not apply to the temporary increase of Medicaid Federal Medical Assistance Percentages (FMAP) funds, Health Care Services has not yet received final confirmation from the OMB that its understanding is correct.

The Task Force estimates, as shown on the State Recovery Portal on April 13, 2009, that Health Care Services' share of the Recovery Act funds will be approximately $3.3 billion for fiscal year 2008–09. As shown in Table 4 on the following page, these funds will be allocated to provide temporary supplemental federal funding for allowable Medicaid expenditures. As of April 30, 2009, Health Care Services had spent more than $2.0 billion, or approximately 62 percent, of these Recovery Act funds.

The mission of Health Care Services is to preserve and improve the health status of all Californians. To fulfill its mission, Health Care Services finances and administers a number of individual health care service delivery programs, including the California Medical Assistance Program (Medi-Cal), which provides health care services to low-income persons and families who meet defined eligibility requirements. Health Care Services has identified two "department leads" to oversee its implementation of the FMAP funds it received under the Recovery Act. The primary

contact is Health Care Services' associate director and Medi-Cal tribal liaison, and the alternate contact is its deputy director for administration. The undersecretary of California's Health and Human Services Agency serves as the liaison between the department and the Task Force, relaying and receiving Recovery Act information as necessary.

Table 4
The Department of Health Care Services' Use of Its Estimated Share of Federal Funds Under the American Recovery and Reinvestment Act of 2009 for Fiscal Year 2008–09
(Dollars in Millions)

FEDERAL PROGRAM	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	RECOVERY ACT FUNDS THE FEDERAL PROGRAM IS EXPECTED TO RECEIVE*	RECOVERY ACT FUNDS FOR WHICH HEALTH CARE SERVICES APPLIED	RECOVERY ACT FUNDS THE FEDERAL GOVERNMENT AWARDED	RECOVERY ACT FUNDS HEALTH CARE SERVICES RECEIVED THROUGH APRIL 30, 2009†	RECOVERY ACT FUNDS HEALTH CARE SERVICES SPENT THROUGH APRIL 30, 2009‡
Temporary increase of medicaid Federal Medical Assistance Percentages (FMAP)	93.778§	$3,259.9	NA‖	$3,331.2	$1,992.0	$2,053.6

Sources: California Economic Recovery Portal Web site (State Recovery Portal), http://recovery.ca.gov, as of April 13, 2009; and records maintained by the Department of Health Care Services (Health Care Services).

NA = Not applicable.

* This represents the amount of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds the State Recovery Portal shows Health Care Services may receive from the federal government by the end of fiscal year 2008–09.

† This represents the amount of Recovery Act funds Health Care Services has drawn down from the federal government for fiscal year 2008–09 as of April 30, 2009.

‡ This represents the amount of Recovery Act funds Health Care Services has either spent on its own behalf or provided to subrecipients for fiscal year 2008–09 as of April 30, 2009.

§ Although Health Care Services did not provide us what it thought the temporary increase in the FMAP program's Catalog of Federal Domestic Assistance (CFDA) number is, we believe the CFDA number is 93.778 because the temporary increase in FMAP is merely a change in the sharing ratio of program costs for the Medical Assistance Program.

‖ According to the chief of Health Care Services' financial management branch, no application was required because this Recovery Act funding is applied to an existing program.

Existing Internal Controls That Health Care Services Intends to Use in Administering Recovery Act Funding Are Weak

Health Care Services intends to use existing internal controls to administer Recovery Act funding. However, as shown in Table 5 on the following page, our review of the status of certain internal control weaknesses previously identified in our Single Audit report covering fiscal year 2007–08 revealed that there were 11 deficiencies that may affect Health Care Services' ability to administer Recovery Act funding, covering areas such as activities allowed and allowable costs, eligibility, reporting, and subrecipient monitoring. For example, for our fiscal year 2007–08 audit of expenditures charged to Medi-Cal, we selected a sample of 50 fee-for-service claims and used Health Care Services' medical review branch of trained medical professionals to determine whether the expenditure was

for an allowable service rendered and was supported by medical records or other evidence indicating that the service was actually provided and consistent with the medical diagnosis. We noted six claims that did not appear to be for an allowable service. Specifically, five paid claims were not considered medically necessary, and one claim did not have sufficient documentation to support whether the required medical procedures were rendered to the beneficiary. As of May 19, 2009, Health Care Services had drafted letters requesting recoveries from four of the providers identified in the deficiency, but has not sent them. It plans on recovering the other two claims from the hospitals during its annual post-payment reviews. While recovering these payments is a good start, until Health Care Services takes steps to correct the internal control weaknesses that caused the errors, it cannot adequately ensure only medically necessary claims and eligible providers are paid. If the existing system of internal controls allows such mispayments to occur under Medi-Cal, relying on that same system could allow mispayments to occur with the increased FMAP funds from the Recovery Act.

Table 5
Single Audit Internal Control Weaknesses for the Federal Program at the Department of Health Care Services That Is Expected to Receive $50 Million or More Under the American Recovery and Reinvestment Act of 2009 for Fiscal Years 2008–09 and 2009–10
(Dollars in Millions)

				AREA WHERE INTERNAL CONTROL WEAKNESS WAS IDENTIFIED					
FEDERAL PROGRAM	AMOUNT OF RECOVERY ACT FUNDS THE STATE EXPECTS TO RECEIVE IN FISCAL YEAR 2008–09	AMOUNT OF RECOVERY ACT FUNDS THE STATE EXPECTS TO RECEIVE IN FISCAL YEAR 2009–10	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	ACTIVITIES ALLOWED/ ALLOWABLE COSTS	CASH MANAGEMENT	ELIGIBILITY	REPORTING	SUBRECIPIENT MONITORING	TOTAL
Temporary increase of medicaid Federal Medical Assistance Percentages (FMAP)	$3,259.9	$4,469.9	93.778*	4	0	4†	1	2	11

Sources: California Economic Recovery Portal Web site, http://recovery.ca.gov, as of April 13, 2009; and the Bureau of State Audits' *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008* (Single Audit), Report 2008-002, May 2009.

* Although the Department of Health Care Services did not provide us what it thought the Catalog of Federal Domestic Assistance (CFDA) number is for the temporary increase in FMAP, we believe the CFDA number is 93.778 because this increase is merely a change in the sharing ratio of program costs for the Medical Assistance Program.

† Although two of these weaknesses were identified during procedures performed over special tests and provisions for our Single Audit covering fiscal year 2007–08, we categorize them here as eligibility weaknesses because they relate to provider eligibility.

Further, Health Care Services has not fully resolved an internal control weakness over eligibility that we previously identified during the Single Audit report covering fiscal year 2006–07 and noted again in fiscal year 2007–08. Specifically, we reported that Health Care Services is unable to reconcile presumptive

eligibility[12] numbers with the enrollment listings qualified providers file because it lacks an automated system to process these records. Inadequate tracking of presumptive eligibility numbers risks duplicated issuances of numbers or unauthorized use if the existence of the recipient is not authenticated. Health Care Services reported in its corrective action plan for the Single Audit covering fiscal year 2007–08 that it is participating in an enterprise enrollment portal (EEP) feasibility study report on a Web-based application process that will include the presumptive eligibility program for pregnant women. As of May 2009 Health Care Services reports that its advance-planning document is currently under review to acquire federal funding for the EEP. The timeline for the EEP includes acquisition beginning in July 2009 and design, development, and implementation beginning in July 2012.

Because it expects to receive Recovery Act funds mainly for an existing federal program rather than new programs, Health Care Services plans to use its existing internal controls to administer Recovery Act funds. For example, its accounting section uses a database and reporting system known as the CMS 64 accounting system (CMS 64) for federal reporting and to claim state and federal funding participation for health care programs it administers. To comply with Task Force guidance to separately track Recovery Act funds, Health Care Services draws down and tracks the additional FMAP funds manually, outside of CMS 64. Currently, Health Care Services is calculating the 11.59 percent temporary increase for FMAP manually; however, it is in the process of updating its CMS 64, and will begin testing the system June 1, 2009, with an implementation date of July 1, 2009.

To comply with the Task Force guidance to separately track Recovery Act funds, Health Care Services draws down and tracks the additional funds manually, outside of its accounting system.

Health Care Services Is Still Waiting for Clarification on Recovery Act Reporting Requirements

The associate director of Health Care Services stated that the department's position is that it is not subject to the federal reporting requirements under Section 1512 of the Recovery Act at this time because the programs it administers are entitlement or mandatory programs. In guidance the OMB published in April 2009, she stated it appears that these types of programs would be exempt from Section 1512 reporting requirements. She also stated that another entity had made inquiries to the OMB seeking additional clarification on this requirement. Health Care

[12] The presumptive eligibility component of this program grants immediate temporary Medi-Cal coverage for California residents who are pregnant but do not have health insurance or Medi-Cal coverage for prenatal care. Health Care Services grants qualified providers the right to enroll recipients under this program. The provider is required to submit to Health Care Services a weekly enrollment summary of all presumptive eligibility identification numbers it issued.

Services provided a copy of a letter dated May 1, 2009, from the American Public Human Services Association (association) to the OMB asking for clarification about which federal programs are considered entitlement or mandatory programs. According to its Web site, the association is a nonprofit organization of state and local human services agencies and individuals who work or are interested in public human service programs, including Medicaid. The associate director and Medi-Cal tribal liaison also stated that Health Care Services is still awaiting the OMB's clarification on this requirement.

Table A.2 in Appendix A presents, for the one program expected to receive $50 million or more in fiscal year 2008–09, an assessment of Health Care Services' preparedness to administer Recovery Act funding for the temporary increase of Medicaid FMAP. Table B in Appendix B presents, by OMB Circular A-133 compliance requirement, the status of actions Health Care Services has taken to correct certain internal control weaknesses reported in the Single Audit covering fiscal year 2007–08. As shown in Appendix B, Health Care Services is in the process of taking corrective action for all 11 internal control weaknesses we identified.

Health Care Services recommended specific changes to the report during our exit conference. We made those changes we considered necessary.

While EDD is Progressing With Efforts to Prepare to Administer Recovery Act Funding, More Steps Are Necessary

EDD has made moderate progress toward implementing the steps necessary to administer Recovery Act funding. For instance, it has created an internal oversight group to manage new Recovery Act policies and has taken steps to add more staff to monitor the use of Recovery Act funds. Further, EDD staff has worked with subrecipients of Workforce Investment Act (WIA) funds to ensure that they are aware of the changing provisions associated with the Recovery Act. However, more work is needed in some critical areas. For example, EDD stated that it would have to provide estimates in order to meet the current reporting deadlines of the Recovery Act, and is still awaiting guidance regarding Section 1512 performance reporting. Also, although it has established unique grant codes for Unemployment Insurance (UI) Recovery Act funds, additional programming is needed to ensure Recovery Act and other federal funding transactions are charged to the correct code. EDD stated that the additional programming will be completed by June 30, 2009.

EDD has stated that it would have to provide estimates in order to meet the current reporting deadlines of the Recovery Act, and additional programming needed to separately track the funds is scheduled to be completed by June 30, 2009.

The Task Force estimates that EDD's share of Recovery Act funds will be approximately $2.5 billion for fiscal year 2008–09. As shown in Table 6, these funds will be allocated among seven federal programs that EDD administers. The Task Force expects that the majority of these funds will be split among three components of the UI program to temporarily extend the length of time an individual may receive unemployment benefits and to provide an increase in the amount of weekly benefits an unemployed individual is eligible to receive.

EDD promotes California's economic growth by providing services to keep employers, employees, and job seekers competitive. EDD connects employers with job seekers; administers the UI, Disability Insurance, and Paid Family Leave programs; and provides employment and training programs under the federal WIA. According to the chief of EDD's accounting section, the department created a Recovery Act work group (work group), consisting of representatives from various branches and divisions within EDD, to oversee the department's implementation of the Recovery Act. According to the chief of the accounting section, the work group maintains regular contact with the Task Force, providing daily reports on the total amount of Recovery Act benefits paid to date and weekly updates on upcoming Recovery Act events, and responding to questions from the Task Force's Labor Workforce and Development Agency representative.

Existing Internal Controls Over Subrecipient Monitoring Need to Be Strengthened

In our most recent Single Audit report covering fiscal year 2007–08, we noted that EDD did not conduct on-site monitoring reviews of any community-based organizations that received federal funding under the Workforce Investment Act programs, even though in total these organizations received $83.5 million in such funding.

EDD generally intends to use existing internal controls to administer Recovery Act funding because it believes these funds are simply supplements or augmentations to existing programs. However, our review of the status of internal control weaknesses previously identified in our Single Audit report covering fiscal year 2007–08 revealed three weaknesses related to subrecipient monitoring that, if not corrected, may directly affect EDD's ability to administer Recovery Act funding. Table 7 on page 35 displays Single Audit internal control weaknesses at EDD for federal programs that are expected to receive $50 million or more under the Recovery Act during fiscal years 2008–09 and 2009–10. We reported that EDD did not conduct on-site monitoring reviews of any community-based organizations (CBOs) that received federal funding under the three WIA programs during fiscal year 2007–08. Combined, the CBOs received $83.5 million in WIA funding. According to EDD's corrective action plan, it intends to resolve this issue by increasing the size of its monitoring workforce. However, we have concerns regarding the ability of EDD to quickly hire a sufficient monitoring workforce to perform such monitoring.

Table 6
The Employment Development Department's Use of Its Estimated Share of Federal Funds Under the American Recovery and Reinvestment Act of 2009 for Fiscal Year 2008–09
(Dollars in Millions)

FEDERAL PROGRAM	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	RECOVERY ACT FUNDS THE FEDERAL PROGRAM IS EXPECTED TO RECEIVE	RECOVERY ACT FUNDS FOR WHICH EDD APPLIED	RECOVERY ACT FUNDS THE FEDERAL GOVERNMENT AWARDED	RECOVERY ACT FUNDS EDD RECEIVED THROUGH APRIL 30, 2009*	RECOVERY ACT FUNDS EDD SPENT THROUGH APRIL 30, 2009†
Federal funding for extended unemployment (Fed-Ed)	unknown‡	$885.3	NA§	NA‖	$0.0#	$0.0#
Unemployment Insurance—extension of Emergency Unemployment Compensation (EUC)	17.225	693.0**	NA§	NA‖	0.0††	unknown††
Increase in unemployment compensation benefits	17.225	480.0	NA§	NA‖	215.1	215.1
Workforce Investment Act: Dislocated Workers	17.260	188.6	NA§	$221.9	0.135	0.135
Workforce Investment Act: Youth Services	17.259	158.6	NA§	186.6	0.275	0.275
Workforce Investment Act: Adult Work Services	17.258	68.1	NA§	80.1	0.065	0.065
State Unemployment Insurance and Employment Service Operations	17.225 and 17.207	19.9	NA§	59.9‡‡	0.0	0.0
Totals		**$2,493.5**	NA§	**$548.5**	**$215.6**	**$215.6**

Sources: California Economic Recovery Portal Web site (State Recovery Portal), http://www.recovery.ca.gov, as of April 13, 2009; and accounting records maintained by the Employment Development Department (EDD.)

NA = Not applicable.

* This represents the amount of Recovery Act funds EDD has drawn down from the federal government for fiscal year 2008–09 as of April 30, 2009.

† This represents the amount of Recovery Act funds EDD has either spent on its own behalf or provided to subrecipients for fiscal year 2008–09 as of April 30, 2009.

‡ EDD believes this program will be funded through Catalog of Federal Domestic Assistance (CFDA) number 17.225, but notes that the federal government has not confirmed the CFDA number.

§ According to EDD, all Recovery Act funds it is expected to or has received in fiscal year 2008–09 are for extensions of existing programs. As a result, EDD was not required to apply for the funds.

‖ According to EDD, it does not receive a Notice of Obligation (award notice) for Unemployment Insurance (UI) benefits. According to EDD, it estimated sums it is likely to receive in fiscal year 2008–09 based on unemployment levels and unemployment claims it projected.

According to EDD, benefit payments for the Recovery Act Fed-Ed program began in May 2009. As a result, there are no receipts and expenditures to report in this table.

** Although the State Recovery Portal did not show EDD as the responsible state department for this program, we confirmed that it will administer the program.

†† Although EDD is able to identify the total amount of EUC receipts and expenditures (Recovery Act extended EUC expenditures and regular EUC expenditures paid with other federal funds combined), as of June 12, 2009, the accounting programming to distinguish payments from the Unemployment Compensation Account and the federal treasury general fund, which is used to pay the extended EUC expenditures, is not in place. As a result, EDD cannot isolate Recovery Act extended EUC financial activity from regular EUC financial activity.

‡‡ EDD plans to use the entire $59.9 million to update its UI information technology systems.

Until EDD fully resolves this issue, it cannot ensure that CBOs are acting in compliance with applicable laws, regulations, or provisions of grant agreements. As a result, because EDD plans to use existing processes, Recovery Act funds may not be monitored effectively if it does not correct the weaknesses in these processes.

Conversely, EDD appears to have fully addressed the internal control weakness over reporting that we previously identified. Specifically, we reported that the WIA dislocated workers ETA-9130 report (round 1) EDD submitted to the U.S. Department of Labor (DOL) revealed that EDD did not report dislocated worker funds it transferred to the WIA Adult Program. During procedures performed as part of this analysis, we examined one dislocated workers ETA-9130 report (round 1) that EDD submitted to DOL in fiscal year 2008–09 and determined that the supporting accounting records agreed with the report. Therefore, it appears the weakness reported in fiscal year 2007–08 may have been an isolated instance, and EDD's existing internal controls over reporting are sufficient for complying with the financial reporting provisions of the Recovery Act. As we commence our Single Audit report covering fiscal year 2008–09, we intend to conduct additional procedures to determine whether all weaknesses identified in our most recent Single Audit report covering fiscal year 2007–08 have been corrected.

Because it expects to receive Recovery Act funds only for existing federal programs rather than new programs, EDD plans to use its existing internal controls and data systems to administer Recovery Act funding. For example, EDD uses a data system called the Job and Training Automation System (JTA) to reimburse WIA subgrantees for contract services rendered. The JTA uses grant codes to track which federal program cash is being drawn down from. To comply with Task Force guidance to separately track Recovery Act funds, EDD has already established unique grant codes to identify Recovery Act funds. Conversely, according to EDD officials, it is currently developing accounting programming procedures to distinguish Recovery Act fund payments from the federal Treasury general fund payments for one of its UI programs.

EDD has also begun to address changes prompted by the Recovery Act in eligibility requirements for the WIA Youth Services Summer Program by providing guidance to subrecipients, bringing new regulations to their attention.

EDD Is Still Waiting for Clarification on Recovery Act Reporting Provisions

EDD also intends to use existing financial reporting systems to comply with the financial reporting provisions of the Recovery Act, but is currently awaiting guidance from the federal government

Table 7

Single Audit Internal Control Weaknesses for Federal Programs at the Employment Development Department That Are Expected to Receive $50 Million or More Under the American Recovery and Reinvestment Act of 2009 for Fiscal Years 2008–09 and 2009–10
(Dollars in Millions)

FEDERAL PROGRAM	AMOUNT OF RECOVERY ACT FUNDS THE STATE EXPECTS TO RECEIVE IN FISCAL YEAR 2008–09	AMOUNT OF RECOVERY ACT FUNDS THE STATE EXPECTS TO RECEIVE IN FISCAL YEAR 2009–10	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	AREA WHERE INTERNAL CONTROL WEAKNESS WAS IDENTIFIED					
				ACTIVITIES ALLOWED/ ALLOWABLE COSTS	CASH MANAGEMENT	ELIGIBILITY	REPORTING	SUBRECIPIENT MONITORING	TOTALS
Federal funding for extended unemployment (Fed-Ed)	$885.3	$2,225.5	unknown*	†	†	†	†	†	†
Unemployment Insurance—extension of Emergency Unemployment Compensation Program (EUC)	693.0	1,407.0	17.225	†	†	†	†	†	†
Increase in unemployment compensation benefits	480.0	720.0	17.225	†	†	†	†	†	†
Workforce Investment Act: Dislocated Workers	188.6	33.3	17.260	0	0	0	1	1	2
Workforce Investment Act: Youth Services	158.6	28.0	17.259	0	0	0	0	1	1
Workforce Investment Act: Adult Work Services	68.1	12.0	17.258	0	0	0	0	1	1
State Unemployment Insurance and Employment Service Operations	19.9‡	40.0	17.225 and 17.207	†	†	†	†	†	†
Competitive grants for workers	0.0	75.0	17.275	§	§	§	§	§	§
Totals	**$2,493.5**	**$4,540.8**		**0**	**0**	**0**	**1**	**3**	**4**

Sources: California Economic Recovery Portal Web site, http://recovery.ca.gov, as of April 13, 2009; Bureau of State Audits' *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008*, Report 2008-002 (Single Audit), May 2009; the Catalog of Federal Domestic Assistance (CFDA); and accounting records maintained by and interviews held with staff at the Employment Development Department (EDD).

* EDD believes this program will be funded through CFDA number 17.225, but notes that the federal government has not confirmed the CFDA number.

† The Unemployment Insurance (UI) program (CFDA number 17.225) and the Employment Services program (CFDA number 17.207) were not included in our Single Audit covering fiscal year 2007–08.

‡ State Unemployment Insurance and Employment Services Operations was awarded $59.9 million in fiscal year 2008–09. The amount is expected to be received over a two-year period. EDD plans to use the entire $59.9 million to update its UI information technology systems.

§ This is a new program, and therefore, was not included in our Single Audit report covering fiscal year 2007-08.

EDD has already performed a "dry run" of the financial reports required by the Recovery Act for the WIA programs it administers.

regarding such provisions. However, EDD has already performed a "dry run" of the financial reports required by the Recovery Act for the WIA programs it administers. DOL has accepted these initial Recovery Act financial reports.

In addition to its financial reporting requirements, Section 1512 of the Recovery Act proposes additional reporting requirements, including performance reporting data. With regard to additional reporting, EDD stated that it has sought guidance from DOL and the OMB to obtain additional information regarding how it can satisfy proposed OMB reporting guidelines. EDD was unable to provide documentary evidence to support the nature of guidance that it sought. However, as of May 6, 2009, EDD indicates that it has yet to receive the requested guidance from DOL. EDD stated that, as of June 11, 2009, it can only meet the 10-day reporting deadline under Section 1512 by using estimated financial data. However, because EDD still requires guidance on performance reporting, it cannot ensure Section 1512 reporting compliance at this time.

Tables A.3.1 and A.3.2 in Appendix A presents, by programs that have or are expected to receive or be awarded $50 million or more in fiscal year 2008–09, an assessment of EDD's preparedness to administer Recovery Act funding for each program. Table B in Appendix B presents, by OMB Circular A-133 compliance requirement, the status of action EDD has taken to correct certain internal control weaknesses reported in the Single Audit covering fiscal year 2007–08. As shown in Appendix B, EDD has fully addressed one issue and is in the process of correcting the remaining three.

EDD provided comments at our exit conference recommending specific changes to the report. We made those changes we considered necessary.

Social Services Is Still in the Process of Implementing Steps to Administer Recovery Act Funding

Social Services has made progress toward implementing the steps necessary to administer Recovery Act funding. For example, Social Services indicates that it set up a work group to manage the issues associated with implementing programs under the Recovery Act and also meets weekly on an informal basis with its contact on the Task Force to discuss Recovery Act information. However, there are some critical areas where more work is needed. For example, the Assistance for vulnerable individuals—Emergency Fund for the Temporary Assistance for Needy Families (TANF) Emergency Contingency Fund (TANF Contingency Fund) is a new program created under the Recovery Act, for which Social Services intends

to use existing internal controls to administer Recovery Act funding. Nevertheless, in our Single Audit report covering fiscal year 2007–08, we found two internal control weaknesses related to subrecipient monitoring and one weakness related to activities allowed and allowable costs that may affect Social Services' ability to administer the Recovery Act funds.

As of April 13, 2009, the Task Force estimated that Social Services' share of the Recovery Act funds would be $332.4 million for fiscal year 2008–09. As shown in Table 8, the majority of these funds will be allocated to two federal programs that Social Services administers to increase food stamp benefits and the amount of assistance available for vulnerable individuals. Because we reviewed only those programs expected to receive $50 million or more in Recovery Act funds, our review covers $260.8 million of the $332.4 million Social Services is expected to receive.

Table 8
The Department of Social Services' Use of Its Share of Federal Funds Under the American Recovery and Reinvestment Act of 2009 for Fiscal Year 2008–09
(Dollars in Millions)

FEDERAL PROGRAM	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	RECOVERY ACT FUNDS THE FEDERAL PROGRAM IS EXPECTED TO RECEIVE	RECOVERY ACT FUNDS FOR WHICH SOCIAL SERVICES APPLIED	RECOVERY ACT FUNDS THE FEDERAL GOVERNMENT AWARDED	RECOVERY ACT FUNDS SOCIAL SERVICES RECEIVED THROUGH APRIL 30, 2009*	RECOVERY ACT FUNDS SOCIAL SERVICES SPENT THROUGH APRIL 30, 2009†
Increase in the Supplemental Nutrition Assistance Program (SNAP) benefits (food stamps program)	10.551	$140.0	‡	§	§	§
Assistance for vulnerable individuals—Emergency Fund for Temporary Assistance for Needy Families (TANF) Program (TANF Contingency Fund)	93.714	120.8	‖	$246.4#	$0**	$0**
Totals		$260.8		$246.4	$0	$0

Sources: California Economic Recovery Portal Web site, http://recovery.ca.gov, as of April 13, 2009; interviews held with the Department of Social Services' (Social Services) staff; and records provided by Social Services.

* This represents the amount of Recovery Act funds Social Services has drawn down from the federal government for fiscal year 2007–08 as of April 30, 2009.

† This represents the amount of Recovery Act funds Social Services has either spent on its own behalf or provided to subrecipients for fiscal year 2007–08 as of April 30, 2009.

‡ According to the manager of Social Services' federal reporting section, the program is an extension of an existing program. No application was required for the 13.6 percent increase in SNAP benefits allotted to individuals.

§ The federal government did not award SNAP funds to Social Services under the Recovery Act; it provided these funds directly to individuals receiving benefits.

‖ Social Services' application for the TANF Contingency Fund grant did not contain a specific amount.

In a letter dated May 18, 2009, the federal government notified Social Services that it had approved Social Services' application, that California qualified for $246.4 million in funding, and that it should receive a notice of grant award shortly.

** As of May 18, 2009, Social Services has not received a notice of grant award. Therefore, it has not received or expended the funds.

The mission of Social Services is to serve, aid, and protect needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. Social Services accomplishes its mission through the operation and oversight of a variety of programs that provide cash assistance, social services, disability evaluation, community care licensing, and other services. According to its lead audits coordinator, Social Services has set up a work group to manage the issues associated with implementing programs included in the Recovery Act for which Social Services may receive funds. This work group includes individuals who are the point of contact for their respective branch or division regarding Recovery Act funds. This group is not formal and does not meet regularly. Rather, whenever Recovery Act issues arise, members of the work group are informed and address the aspects of the issues their respective branch or division is responsible for. Further, the deputy director of the administration division stated that Social Services also participates in weekly informal meetings with the California Health and Human Services Agency (CHHSA) representative on the Task Force. These weekly update meetings include other state departments that report to CHHSA and provide an opportunity to disseminate and discuss Recovery Act-related information and topics that either may affect CHHSA departments or are of general interest to the group.

Existing Internal Controls That Social Services Intends to Use in Administering Recovery Act Funding Are Weak

As we reported in our most recent Single Audit report covering fiscal year 2007–08, Social Services has no way of assuring that counties are spending federal funds only on allowable activities and costs because it does not require the counties to submit detailed supporting documentation for their expense and assistance claims, nor did it conduct any on-site visits to validate the claims.

Social Services stated that overall it intends to use existing internal controls to administer Recovery Act funding. However, as shown in Table 9, with respect to the TANF program, our review of internal control weaknesses previously identified in our Single Audit report covering fiscal year 2007–08 revealed two weaknesses related to subrecipient monitoring and one related to activities allowed and allowable costs that may affect Social Services' ability to administer Recovery Act funding. For example, we reported that its processes for reviewing and authorizing counties' expense and assistance claims for the TANF program do not provide reasonable assurance that federal funds were expended only for allowable activities and costs. Specifically, Social Services does not require the counties to submit detailed supporting documentation for their expense and assistance claims, nor did it conduct any on-site visits to the counties to review their supporting documentation for their expense and assistance claims in fiscal year 2007–08. Without such procedures, Social Services has no way of assuring that counties are spending federal funds only on allowable activities and costs.

Table 9

Single Audit Internal Control Weaknesses for Federal Programs at the Department of Social Services That Are Expected to Receive $50 Million or More Under the American Recovery and Reinvestment Act of 2009 for Fiscal Years 2008–09 and 2009–10
(Dollars in Millions)

FEDERAL PROGRAM	AMOUNT OF RECOVERY ACT FUNDS THE STATE EXPECTS TO RECEIVE IN FISCAL YEAR 2008–09	AMOUNT OF RECOVERY ACT FUNDS THE STATE EXPECTS TO RECEIVE IN FISCAL YEAR 2009–10	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	AREA WHERE INTERNAL CONTROL WEAKNESS WAS IDENTIFIED					
				ACTIVITIES ALLOWED/ ALLOWABLE COSTS	CASH MANAGEMENT	ELIGIBILITY	REPORTING	SUBRECIPIENT MONITORING	TOTALS
Increase in the Supplemental Nutrition Assistance Program (SNAP) benefits (food stamps program)	$140.0	$560.0	10.551	*	*	*	*	*	*
Assistance for vulnerable individuals—Emergency Fund for Temporary Assistance for Needy Families (TANF) Program (TANF Contingency Fund)	120.8	236.9	93.714†	1	0	0	0	2	3
Totals	**$260.8**	**$796.9**		**1**	**0**	**0**	**0**	**2**	**3**

Sources: California Economic Recovery Portal Web site, http://recovery.ca.gov, as of April 13, 2009; Bureau of State Audits' *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008* (Single Audit), Report 2008-002, May 2009; and the Catalog of Federal Domestic Assistance (CFDA).

* This program was not included in our Single Audit covering fiscal year 2007–08 because the last time we audited the program we did not identify any compliance issues or weaknesses in internal controls. As a result, in fiscal year 2007–08, we classified the program as low-risk. However, the program is included in our Single Audit covering fiscal year 2008–09.

† The federal CFDA number for this program will not agree with our Single Audit report covering fiscal year 2007–08. The federal government issued a new CFDA number for this program because it will receive funding under the American Recovery and Reinvestment Act of 2009. In the Single Audit report covering fiscal year 2007–08, the program we audited, TANF, is CFDA number 93.558.

At the time that the Single Audit was published, Social Services responded that it did not concur with our conclusion regarding this weakness and that our recommendations were based on an incomplete review of the process it used. Further, Social Services stated that our description did not correctly represent the rationale used to stop the requirement for counties to submit supporting documentation with their assistance claims. Social Services explained that requiring such documentation did not add value to the processing of automated claims; however, it did not provide us with evidence to support its point of view. Instead, Social Services relied on an automated claim process that does nothing more than perform edit checks to ensure that the counties did not charge expenditures to improper aid or program codes and line items, that they did not exceed certain dollar amounts, and that they had the required staff sign the claim. Consequently, the automated claim process does not allow Social Services to determine if the counties have charged only allowable activities and costs. As of May 19 2009, the chief of the employment and eligibility branch confirmed that Social Services still does not concur with this finding.

In a September 2008 report, the U.S Department of Health and Human Services' Office of Inspector General estimated that Social Services made improper payments of $91.6 million during the period reviewed.

The U.S. Department of Health and Human Services' Office of Inspector General's (OIG) report illustrates that Social Services' reliance on its automated claim process alone cannot ensure the counties' assistance claims include only allowable activities or costs. According to its September 2008 report titled *Review of Improper Temporary Assistance for Needy Families Basic Assistance Payments in California for April 1, 2006, through March 31, 2007*, the OIG estimated that Social Services made improper payments of $91.6 million (federal share only) during the period reviewed.

To comply with Task Force guidance to separately track Recovery Act funds, Social Services is in the process of implementing separate accounts to distinguish Recovery Act funds from other federal funds coming to California. Social Services requested the State Controller to establish a new account for the receipt of funds from the TANF Contingency Fund, a program expected to receive funds under the Recovery Act. Further, Social Services also provided separate program cost accounts to distinguish Recovery Act expenditures for the TANF Contingency Fund. However, for the Recovery Act transparency provisions with respect to the Supplemental Nutrition Assistance Program (SNAP) benefits increase, the federal government informed Social Services that rather than place the burden on the states to have two or more sets of accounting records, the federal agency will determine a rate to use to segregate regular and Recovery Act benefits.

Social Services May Be Exempt From the Recovery Act's Section 1512 Reporting Requirements

Regarding the SNAP benefits increase, on June 12, 2009, Social Services received confirmation from the federal government that States are not required to submit modified FNS-46 reports for the Recovery Act. Further, Recovery Act funds will be tracked through a process in which the federal government will determine a percentage rate to apply to daily drawdowns of program funds to segregate regular and Recovery Act benefits. For the TANF Contingency Fund, Social Services senior assistant chief counsel told us that Section 1512 of the Recovery Act does not require Social Services to create a recipient report for the Recovery Act funding provided to the program. Further, according to the assistant branch manager for the estimates bureau, OMB verbally agreed with Social Services' interpretation that the TANF Contingency Fund is not subject to reporting under Section 1512 of the Recovery Act. Additionally, on June 9, 2009, a representative of the ACF confirmed that the TANF Contingency Fund program is not subject to Section 1512 reporting requirements. Although the Section 1512 reporting requirements do not apply to the TANF Contingency Fund, the ACF representative added that the OMB might have additional requirements. Social Services told us that in light of the response from ACF, it believes it has received authoritative federal guidance that the TANF Contingency Fund is not subject to Recovery Act Section 1512 reporting requirements.

Table A.4 in Appendix A presents, by programs expected to receive $50 million or more in fiscal year 2008–09, an assessment of Social Services' preparedness to administer funding under the Recovery Act for each program. Table B in Appendix B presents, by OMB Circular A-133 compliance requirement, the status of actions Social Services has taken to correct certain internal control weaknesses reported in the Single Audit covering fiscal year 2007–08. As shown in Appendix B, Social Services is in the process of taking corrective action for one internal control weakness and has taken minimal or no action to address the reamining two.

Social Services provided comments at our exit conference recommending specific changes to the report. We made those changes we considered necessary.

Recommendations

We recommend that to strengthen the State's preparedness to administer Recovery Act funding, the Task Force should do the following:

- Continue in its leadership role in seeking guidance from the OMB and other pertinent federal agencies. In addition, the Task Force should coordinate its efforts to determine which state departments are waiting for guidance, the federal agencies from which the state departments are seeking guidance, and the status of such requests.

- Continue to raise concerns with the OMB and other federal agencies regarding Section 1512 reporting requirements.

- Establish a process to ensure that state departments with known internal control weaknesses take the necessary steps to promptly correct such deficiencies. This process should also include a mechanism to track the status of departments' implementation of corrective action plans developed as a result of audits, reviews, or analyses conducted by the State Auditor's Office (State Auditor), Finance, the U.S. Government Accountability Office (GAO), or each department's respective federal inspector general.

- Provide specific guidance to state departments, including the following:

  - Steps departments should take to coordinate with the State Controller in establishing unique account codes to track the receipt of Recovery Act funds separately from other federal funds.

  - Topics departments should discuss with their respective staff when training them on how to administer Recovery Act funding.

  - Examples of language departments should include in their terms and conditions of grant awards or contracts to assure that subrecipients, if required, are aware of specific Recovery Act provisions, particularly Section 1512 reporting requirements.

State departments should do the following:

- Promptly correct internal control deficiencies, including those identified during the Single Audit covering fiscal year 2007–08 and through other audits, reviews, or analyses conducted by state and federal agencies, such as the State Auditor, Finance, the GAO, and each federal agency's respective inspector general.

- Establish a process to track its progress in implementing any corrective action plans developed as a result of audits, reviews, or analyses conducted by the State Auditor, Finance, the GAO, or each federal agency's respective inspector general.

- Work with the Task Force to ensure that grants and contracts include specific language that informs subrecipients of the Recovery Act's provisions, including Section 1512 reporting requirements, if required.

- Modify policies and procedures to ensure that they reflect specific Recovery Act provisions.

- Provide staff with appropriate training to ensure they are aware of new policies and procedures necessary to administer Recovery Act funding.

We prepared this report under the authority vested in the California State Auditor by Section 8546.5 of the California Government Code.

Respectfully submitted,

ELAINE M. HOWLE, CPA
State Auditor

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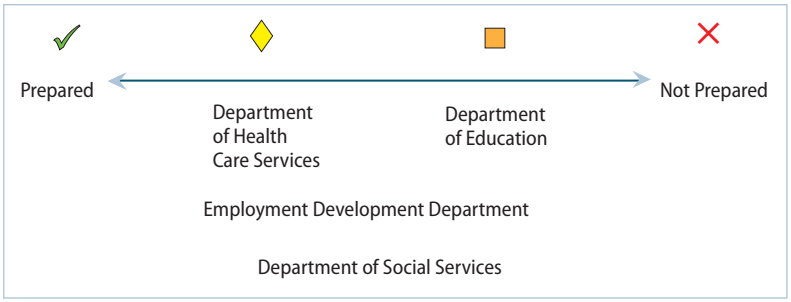
Appendix A

STATUS OF STATE DEPARTMENTS PREPAREDNESS TO ADMINISTER AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 FUNDING

Tables A.1 through A.4 on the following pages provide a summary of our assessment of the preparedness of the four departments we evaluated for this report to administer the American Recovery and Reinvestment Act of 2009 (Recovery Act). We assessed each departments' ability to administer programs for which it has or is expected to receive or be awarded $50 million or more under the Recovery Act for fiscal year 2008–09. Generally, as shown in Figure A, none of the four departments are entirely ready to administer Recovery Act funding. Each department is expected to receive Recovery Act funds for anywhere from one to seven programs. Although all four departments have made progress toward implementing the steps necessary to administer Recovery Act funding, they are still waiting for further guidance from the federal government on Section 1512 reporting requirements before they will be fully ready to properly administer these funds. In addition, all departments need to strengthen controls to mitigate the risk that Recovery Act funds will be used inappropriately. For example, we reported 30 internal control weaknesses in our Single Audit report covering fiscal year 2007–08 related to certain U.S. Office of Management and Budget (OMB) Circular A-133 compliance requirements and federal programs associated with the four departments we assessed. Based on our limited testing during this analysis, it appears that only four of the 30 weaknesses have been fully corrected. This is of concern because all of these weaknesses could affect the successful administration of the Recovery Act funding if not promptly corrected.

Figure A
State Departments' Overall Preparedness to Administer the American Recovery and Reinvestment Act of 2009 Funds



Source: Bureau of State Audits' analysis of the four departments analyzed for this report.
Note: The ranking system of colors and symbols is fully defined in the following pages.

To assess their preparedness to administer Recovery Act funding, we developed a questionnaire for the four departments we visited to complete based on the potential risks identified in the April 3, 2009, implementing guidance for the Recovery Act issued by the OMB. To verify the information the departments included in their responses to the questionnaire, we interviewed key personnel at the departments and reviewed relevant documents pertaining to processes or procedures already in use, developed, or being drafted to administer Recovery Act funding.

Each table provides summary information for the departments and the respective federal programs for which they expect to receive funding under the Recovery Act by the end of fiscal year 2008–09. We used the following ranking system consisting of four colors and symbols to indicate the departments' preparedness with respect to each program risk area:

 :

- Documentation was provided to support the department's assertions.
- Internal control weaknesses have been corrected.
- Guidance has been received and implemented.
- Guidance is deemed not necessary, and appropriate action to prepare for receipt of Recovery Act funds has taken place.

 :

- Documentation was not provided to support the department's assertions.
- The federal program was not audited during the past two fiscal years. Therefore, we are not sure if internal controls are adequate.
- Corrective action has been taken or the department is in the process of correcting the majority of internal control weaknesses.
- No guidance is necessary, but the department is still in the process of taking action to prepare for receipt of Recovery Act funds.
- Guidance has been received and the department is in the process of implementing such guidance.

 :

- Documentation was not provided to support the department's assertions.
- The department has not taken corrective action or corrected the majority of the internal control weaknesses.
- The department has stated that it has asked for guidance, but has no support to demonstrate that it has done so.
- The department has provided support for its request for guidance and is still waiting to receive such guidance.
- No guidance is necessary, but the department has not taken any action to prepare for receipt of Recovery Act funds.

 :

- Documentation was not provided to support the department's assertions.
- The department has taken minimal or no action to correct identified internal control weaknesses.
- The department has not requested guidance.
- Proposed implementation of provisions will not be effective or timely.

NA = Not applicable.

We applied the lowest ranking color symbol when more than one condition was present. For example, if the department provided documentation to support its assertion about what it has done or what it plans to do to prepare to administer Recovery Act funding and it did not have any internal control weaknesses to correct, we would rank it with a green symbol. However, if in the same scenario the department is also awaiting guidance from the federal government, we would rank it with an orange symbol. Thus, even though the department provided documentation to support its assertion, it would still be ranked with an orange symbol because it is still waiting for guidance.

Table A.1

The Department of Education's Preparedness to Administer the American Recovery and Reinvestment Act of 2009 Funds for Programs for Which It Expects to Receive or Be Awarded $50 Million or More for Fiscal Year 2008–09

AREA OF PROGRAM RISK	STATE FISCAL STABILIZATION FUND—STATE ALLOCATIONS—RESTORATION OF K-12 AND CSU/UC CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.394		TITLE I—GRANTS TO LOCAL EDUCATION AGENCIES AND SCHOOL IMPROVEMENT (TARGETED GRANT, FINANCE INCENTIVE GRANT, AND SCHOOL IMPROVEMENT GRANT) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.389		IDEA—PART B—SPECIAL EDUCATION GRANTS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.391	
Overall Preparedness						
Overall preparedness to track, monitor, and report on American Recovery and Reinvestment Act of 2009 (Recovery Act) funds and to comply with the Recovery Act's provisions.		Based on the most frequent occurrence of the color symbol below, the Department of Education (Education) appears moderately prepared to implement the provisions of the Recovery Act for the State Fiscal Stabilization Fund—state allocations—restoration of K-12 and CSU/UC program.		Based on the most frequent occurrence of the color symbol below, Education appears moderately prepared to implement the provisions of the Recovery Act for the Title I—grants to local educational agencies and school improvement (targeted grant, finance incentive grant, and school improvement grant) program.		Based on the most frequent occurrence of the color symbol below, Education appears moderately prepared to implement the provisions of the Recovery Act for the IDEA—Part B—special education grants program.
Human Capital						
A sufficient level of personnel exists to manage the programs included in the Recovery Act.		According to the director of its fiscal policy division, Education does not have a sufficient level of personnel to manage programs included in the Recovery Act, and the Recovery Act did not provide funding for additional administrative workload. However, according to Education, it has reassigned tasks in order for staff to fulfill the duties and responsibilities associated with the Recovery Act. Due to the limited resources available, Education believes that this reassignment of tasks was the most efficient way to manage Recovery Act funding. Education stated that workload and reprioritizations are discussed, but not always documented.		According to the director of its school fiscal services division, Education does not have a sufficient level of personnel to manage programs included in the Recovery Act, and the Recovery Act did not provide funding for additional administrative workload. However, according to Education, it has reassigned tasks in order for staff to fulfill the duties and responsibilities associated with the Recovery Act. Due to the limited resources available, Education believes that this reassignment of tasks was the most efficient way to manage Recovery Act funding. Education stated that workload and reprioritizations are discussed, but not always documented.		According to the director of its special education division, Education does not have a sufficient level of personnel to manage programs included in the Recovery Act, and the Recovery Act did not provide funding for additional administrative workload. However, according to Education, it has reassigned tasks in order for staff to fulfill the duties and responsibilities associated with the Recovery Act. Due to the limited resources available, Education believes that this reassignment of tasks was the most efficient way to manage Recovery Act funding. Education stated that workload and reprioritizations are discussed, but not always documented.

AREA OF PROGRAM RISK	STATE FISCAL STABILIZATION FUND—STATE ALLOCATIONS—RESTORATION OF K-12 AND CSU/UC CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.394		TITLE I—GRANTS TO LOCAL EDUCATION AGENCIES AND SCHOOL IMPROVEMENT (TARGETED GRANT, FINANCE INCENTIVE GRANT, AND SCHOOL IMPROVEMENT GRANT) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.389		IDEA—PART B—SPECIAL EDUCATION GRANTS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.391	
Staff is adequately trained to effectively implement the Recovery Act's provisons.	☐	Although we confirmed that Education has discussed the Recovery Act's Section 1512 reporting requirements with its staff, it is unclear whether staff is adequately trained to effectively implement all of the Recovery Act's provisions because according to Education, it has not yet received the guidance it requested from the Office of Management and Budget (OMB) regarding Recovery Act reporting requirements. Nevertheless, on April 16, 2009, Education held a meeting to provide its staff with an overview of what it knew about the Recovery Act reporting requirements. During this meeting Education covered the reporting requirements under Section 1512 of the Recovery Act. Additionally, Education has received from the Council of Chief State School Officers (CCSSO) a summary of the initial Recovery Act guidance from the U.S. Department of Education (DOE). According to Education, it has reviewed, distributed, and posted on its Web site the DOE's April 2009 guidance for this program. On May 1, 2009, Education submitted its comments to the OMB about the standard data elements for reports under Section 1512. However, as of June 4, 2009, Education is still awaiting a response and further guidance from the OMB regarding the Recovery Act's reporting requirements.	☐	Although we confirmed that Education has discussed the Recovery Act's reporting requirements with its staff, it is unclear whether staff is adequately trained to effectively implement all of the Recovery Act's provisions because according to Education, although it has received some guidance, it has not yet received the guidance it requested from the OMB regarding Recovery Act reporting requirements. Nevertheless, on April 16, 2009, Education held a meeting to provide its staff with an overview of what it knew about the Recovery Act reporting requirements. During this meeting Education covered the reporting requirements under Section 1512 of the Recovery Act. On May 1, 2009, Education submitted its comments to the OMB about the standard data elements for reports under Section 1512. However, as of June 4, 2009, Education is still awaiting a response and further guidance from the OMB regarding the Recovery Act's reporting requirements. According to Education, although it has received some guidance on the use of Title I Recovery Act funds, it is waiting to receive complete guidance from the federal government on the use of Title I funds. Education has received a summary of the DOE's initial Recovery Act guidance from the CCSSO. Education also has a copy of DOE's April 2009 guidance on the Title I funds made available under the Recovery Act.	☐	Although we confirmed that Education has discussed the Recovery Act's reporting requirements with its staff, it is unclear whether staff is adequately trained to effectively implement all of the Recovery Act's provisions because according to Education, it has not yet received the guidance it requested from the OMB regarding Recovery Act reporting requirements. Nevertheless, on April 16, 2009, Education held a meeting to provide its staff with an overview of what it knew about the Recovery Act reporting requirements. During this meeting Education covered the reporting requirements under Section 1512 of the Recovery Act. Additionally, Education has received a summary of the DOE's initial Recovery Act guidance from the CCSSO. On May 1, 2009, Education submitted to the OMB its comments about the standard data elements for reports under Section 1512. However, as of June 4, 2009, Education is still awaiting a response and further guidance from the OMB regarding the Recovery Act's reporting requirements.

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AREA OF PROGRAM RISK	STATE FISCAL STABILIZATION FUND—STATE ALLOCATIONS—RESTORATION OF K-12 AND CSU/UC CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.394		TITLE I—GRANTS TO LOCAL EDUCATION AGENCIES AND SCHOOL IMPROVEMENT (TARGETED GRANT, FINANCE INCENTIVE GRANT, AND SCHOOL IMPROVEMENT GRANT) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.389		IDEA—PART B—SPECIAL EDUCATION GRANTS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.391	
Financial and Operational Systems						
Recovery Act funds are clearly distinguishable (for example, distinguished by using separate accounts).	✓	Based on a review of its Master List of Resource Codes, Education has established separate resource codes for the Recovery Act grant awards using a unique identifier within the standardized account code structure (SACS). According to Education, SACS provides a statewide, uniform financial reporting format. Education believes that by assigning a unique identifier in SACS, funds will be easily identified as Recovery Act funds. Also, according to Education, it has established project and program cost accounts for each grant.	✓	Based on a review of its Master List of Resource Codes, Education has established separate resource codes for the Recovery Act grant awards using a unique identifier within the SACS. According to Education, SACS provides a statewide, uniform financial reporting format. Education believes that by assigning a unique identifier in SACS, funds will be easily identified as Recovery Act funds. Also, according to Education, it has established project and program cost accounts for each grant.	✓	Based on a review of its Master List of Resource Codes, Education has established separate resource codes for the Recovery Act grant awards using a unique identifier within the SACS. According to Education, SACS provides a statewide, uniform financial reporting format. Education believes that by assigning a unique identifier in SACS, funds will be easily identified as Recovery Act funds. Also, according to Education, it has established project and program cost accounts for each grant.
Financial and operational systems are configured to manage and control Recovery Act funds.	✓	Education's director of the fiscal policy division believes that the existing financial and operational systems will be able to manage and control Recovery Act funds. For example, the director of the fiscal policy division stated that Education currently manages around 100 categorical programs, and some of the complexity for roughly 40 of those programs is going away due to recent changes in state law. According to the director of the fiscal policy division, the Recovery Act represents about six more programs and, as a result, the increase in the total number of transactions is minor.	✓	Education's director of the fiscal and administrative services division believes that the existing financial and operational systems are configured to manage and control Recovery Act funds because Recovery Act funds represent a small percentage of the overall amount of funds that Education's systems manage. Further, Title I Recovery Act funding is additional funding for existing programs that already have processes in place, and those processes will be used for the Recovery Act funds.	✓	Education's director of the special education division believes that the existing financial and operational systems are configured to manage and control Recovery Act funds because Recovery Act funds represent a small percentage of the overall amount of funds Education's systems manage. Further, special education Recovery Act funding is additional funding for existing programs that already have processes in place, and those processes will be used for the Recovery Act funds.
Financial and operational systems support the increase in volume of contracts, grants, and loans.	NA	According to the director of its fiscal policy division, Education apportions funds to eligible local educational agencies (LEAs). Although LEAs apply for these funds, Education does not enter into a contract to distribute funds to LEAs.	NA	Education apportions funds to eligible LEAs. Although LEAs apply for these funds, Education does not enter into a contract to award the funds to LEAs.	◆	According to Education, special education local plan areas (SELPAs) do not apply for these funds because they are awarded grants via a formula. Grant letters and agreements have been sent to SELPAs and, according to Education, these additional transactions have not adversely impacted its financial or operational systems.

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Fraud, Waste, and Abuse						
Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are minimized and mitigated (internal controls related to activities allowed and allowable costs.	☐	According to the director of Education's fiscal policy division, existing audit procedures will be used to verify that funds are being used for authorized and appropriate purposes, and limit and identify potential fraud, waste, error, and abuse. According to Education, it monitors LEAs for state and federal programs and fiscal compliance through the categorical program monitoring (CPM) and auditing processes. However, according to Education, the CPM monitors each LEA only once every four years. Also, according to the director of the fiscal policy division, Education's current subrecipient monitoring is based on after-the-fact reporting and subsequent reviews via site visits and desk reviews. Moreover, the director of the fiscal policy division believes Education will need additional resources if the federal guidance that it is awaiting requires monitoring of all subrecipients (for example, LEAs) as the activities and expenditures are occurring, possibly as frequently as quarterly. The director of the fiscal policy division stated that Education will submit waiver requests, as allowable under the Recovery Act, to access additional administrative dollars. In addition, according to the director of the fiscal policy division, Education will need the Department of Finance (Finance) and the Legislature to both allow expenditure of additional dollars and restore cuts that have been made to federal administrative dollars through the state budget process, which threaten Education's ability to do the current level of monitoring.	☐	According to the director of Education's school fiscal services division, existing audit procedures will be used to verify that funds are being used for authorized and appropriate purposes, and limit and identify potential fraud, waste, error and abuse. According to Education, it monitors LEAs for state and federal programs and fiscal compliance through the CPM and auditing processes. However, according to Education, the CPM monitors each LEA only once every four years. Also, according to the director of the school fiscal services division, Education's current subrecipient monitoring is based on after-the-fact reporting and subsequent reviews via site visits and desk reviews. Moreover, the director of the school fiscal services division believes Education will need additional resources if the federal guidance that it is awaiting requires monitoring of all subrecipients (for example, LEAs) as the activities and expenditures are occurring, possibly as frequently as quarterly. The director of the school fiscal services division stated that Education will submit waiver requests, as allowable under the Recovery Act, to access additional administrative dollars. In addition, according to the director of the school fiscal services division, Education will need Finance and the Legislature to both allow expenditure of additional dollars and restore cuts that have been made to federal administrative dollars through the state budget process, which threaten Education's ability to do the current level of monitoring.	☐	According to the director of Education's special education division, existing audit procedures will be used to verify that funds are being used for authorized and appropriate purposes, and limit and identify potential fraud, waste, error and abuse. According to Education, it monitors its special education division programs with approximately 70 division staff. According to Education, for fiscal year 2007–08, this monitoring includes on-site verification reviews of 15 of the 127 SELPAs. Education's process to select SELPAs for review partly consists of reviewing performance data collected yearly, and SELPAs self reviews which are conducted once every four years. Because so few SELPAs are reviewed each year, it appears that Education's monitoring process may not be sufficient for Recovery Act funds. To ensure that its existing audit and monitoring procedures are effective for this new line of funding, Education must fully correct the three subrecipient monitoring internal control weaknesses reported in the Single Audit covering fiscal year 2007–08 for special education programs it expects to receive Recovery Act funds for fiscal years in 2008–09 and 2009–10. Education is still implementing its corrective action for two of the three internal control weaknesses reported. Education stated that it is aware of the Recovery Act objectives and requirements. For example, it received a 22-page guidance from the DOE and a five-page summary of the DOE's guidance from the CCSSO. The purpose of the DOE's guidance was to provide information about the allocation, use and reporting of Special Education, Part B, Recovery Act funds.

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Continued from previous page. Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are minimized and mitigated (internal controls related to activities allowed or unallowed).	To ensure that its existing audit and monitoring procedures are effective for this new line of funding, Education must fully correct the six subrecipient monitoring internal control weaknesses reported in the Single Audit covering fiscal year 2007–08 for programs it expects to receive Recovery Act funds for in fiscal years 2008–09 and 2009–10. Education is still implementing its corrective action for five of the six internal control weaknesses reported. Finally, Education has taken action to ensure that it knows and understands the requirements, including the authorized uses, of these Recovery Act funds. According to Education, the primary means it used to learn of the Recovery Act requirements for these funds was conference calls with the DOE; conference calls, e-mails, a webinar, and two trainings with its federal liaison; conference calls with and written material provided by the CCSSO; and meetings and other communication as needed with representatives of the Governor's Office, including the Office of the Secretary of Education (OSE) and the Governor's Office of Planning and Research. According to Education, it confirms that it is meeting the requirements of this program by posing questions to its federal liaison and asking the liaison to research and contact the DOE as appropriate by participating in a conference call on April 30, 2009, with OSE, Finance, and this program's DOE staff to review and discuss reporting requirements. According to Education, it has reviewed, distributed, and posted on its Web site, DOE's April 2009 guidance for this program.	To ensure that its existing audit and monitoring procedures are effective for this new line of funding, Education must fully correct the two subrecipient monitoring internal control weaknesses reported in the Single Audit covering fiscal year 2007–08 for the Title I program it expects to receive Recovery Act funds for in fiscal years 2008–09 and 2009–10. Education is still implementing its corrective action for both of the internal control weaknesses reported. Education also stated that it has received some guidance on the use of Title I Recovery Act funds. For example, it received a 41-page guidance document from the DOE and a five-page summary of the DOE's guidance from the CCSSO. The purpose of the DOE's guidance was to provide information about the allocation, use, and reporting of Title I, Part A, Recovery Act funds. Finally, according to Education, it is waiting to receive complete guidance from the federal government on the use of Title I funds.	

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Policies and Processes						
Specific Recovery Act requirements are incorporated into department policies.	■	According to Education, it has not incorporated specific Recovery Act fund objectives and requirements into department policies because it is waiting for further clarification from the OMB on the objectives and requirements that need to be incorporated into Education's policies.	■	According to Education, it is waiting to receive complete guidance from the federal government on the use of Title I funds and for the federal government to provide further guidance and clarification on the reporting requirements before it will incorporate them into department policy. However, Education also stated that it has received some guidance on the use of Title I Recovery Act funds. For example, it received a 41-page guidance document from the DOE and a five-page summary of the DOE's guidance from the CCSSO. The purpose of the DOE's guidance was to provide information about the allocation, use, and reporting of Title I, Part A, Recovery Act funds.	■	According to Education, it is aware of the Recovery Act fund objectives and requirements and on an ongoing basis it will incorporate them into department policies to fully implement this program.
Written departmental policies provide the following procedures: (1) requesting cash advances as close as is administratively possible to actual cash outlays; (2) monitoring of cash management activities; and (3) repayment of excess interest earnings when required (internal controls related to cash management).	✕	According to Education, it has formed a cash management task force that is in the process of improving the department's cash management over federal funds. Education stated that it is working with the DOE's risk management team, but it has not been able to implement complete cash management procedures for all programs. The task force has created a cash management improvement plan that will begin with a pilot program, a cash management application and apportionment process flow chart for the pilot, a cash management monitoring process flow chart for the pilot, and a cash management timeline for the pilot.	✕	According to Education, it has formed a cash management task force that is in the process of improving the department's cash management over federal funds. Education stated that it is working with the DOE's risk management team. The task force has created a cash management improvement plan that will commence with a pilot program, a cash management application and apportionment process flow chart for the pilot, a cash management monitoring process flow chart for the pilot, and a cash management timeline for the pilot.	◆	According to Education, it has formed a cash management task force that is in the process of improving the department's cash management over federal funds. Education stated that it is working with the DOE's risk management team. The task force has created a cash management improvement plan that will commence with a pilot program, a cash management application and apportionment process flow chart for the pilot, a cash management monitoring process flow chart for the pilot, and a cash management timeline for the pilot.

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Continued from previous page. Written departmental policies provide the following: (1) procedures for requesting cash advances as close as is administratively possible to actual cash outlays; (2) monitoring of cash management activities; and (3) repayment of excess interest earnings when required (internal controls related to cash management).		Education has not fully corrected three of the five cash management weaknesses reported in the Single Audit covering fiscal year 2007–08 for programs it will receive Recovery Act funds for in fiscal years 2008–09 and 2009–10. Of the three weaknesses Education has not fully corrected, it is in the process of correcting one. However, it disagrees with the other two. As a result, it has not corrected these two internal control weaknesses. Because those deficiencies were due to weaknesses in the processes and procedures that Education plans to use for managing Recovery Act funds, it is possible that similar problems could occur with its use of Recovery Act funds.		Education has not fully corrected two of the three cash management weaknesses reported in the Single Audit covering fiscal year 2007–08 for Title I grants to LEAs. Of the two weaknesses Education has not fully corrected, it is in the process of correcting one. However, it disagrees with the other one. As a result, it has not corrected the internal control weaknesses we reported. Because those deficiencies were due to weaknesses in the processes and procedures that Education plans to use for managing Recovery Act funds, it is possible that similar problems could occur with its use of Recovery Act funds.		However, our Single Audit report covering fiscal year 2007–08 did not include any cash management findings for special education grants to states.
Written policies and procedures have been established to provide direction for making and documenting eligibility determinations for Recovery Act fund grants (internal controls related to eligibility).	✓	Education stated that the methodology it is using to distribute these funds to eligible LEAs was approved by Finance. We confirmed this methodology by reviewing this program's appropriations on Education's Web Site.	✓	We confirmed that Education has received eligibility guidance for Title I funds from the DOE. Education stated it reviewed and will follow the guidance when determining eligibility.	✓	According to Education, all subrecipients of regular special education funding are eligible for special education Recovery Act funding.
Corrective action plan processes are in place to promptly resolve any audit findings identified that may impact the department's ability to successfully implement the Recovery Act.	☐	According to the director of Education's fiscal policy division, staff will follow existing corrective action plan processes to promptly resolve any audit findings identified that may impact Education's ability to successfully implement this federal program. The audit resolution process document does not include any mention of the Recovery Act. However, according to Education, because the document references all federal funds, Recovery Act funds would apply equally. However, we identified a total of 12 internal control weaknesses in the Single Audit report covering fiscal year 2007–08 for Education. Based on our limited testing, only three appear to have been corrected. This is of concern because the weaknesses relate to existing processes and procedures that Education plans to use for its administration of Recovery Act funds.	☐	According to the director of its school and improvement division, Education staff will follow existing corrective action plan processes to promptly resolve any audit findings identified that may impact its ability to successfully implement this federal program. The audit resolution process document does not include any mention of the Recovery Act. However, according to Education, because the document references all federal funds, Recovery Act funds would apply equally. Furthermore, we identified a total of 12 internal control weaknesses in the Single Audit covering fiscal year 2007–08 for Education. Based on our limited testing, only three appear to have been corrected. This is of concern because the weaknesses related to existing processes and procedures that Education plans to use for its administration of Recovery Act funds.	☐	According to the director of its special education division, Education staff will follow existing corrective action plan processes to promptly resolve any audit findings identified that may impact its ability to successfully implement this federal program. The audit resolution process document does not include any mention of the Recovery Act. However, according to Education, because the document references all federal funds, Recovery Act funds would apply equally. Furthermore, we identified a total of 12 internal control weaknesses in the Single Audit report covering fiscal year 2007–08 for Education. Based on our limited testing, only three appear to have been corrected. This is of concern because the weaknesses relate to existing processes and procedures that Education plans to use for its administration of Recovery Act funds.

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New requirements, conditions, and guidance have been provided to the subrecipients regarding Recovery Act funds.	☐	We confirmed that Education's application form requires subrecipients (LEAs) to agree to a list of assurances when it applies for these Recovery Act funds that includes some references to the Recovery Act's provisions or conditions. According to the director of Education's fiscal policy division, an LEA's commitment to the assurances is a condition of receipt of funds. However, Education is awaiting further guidance from the OMB regarding subrecipients' reporting requirements under Section 1512 of the Recovery Act. Otherwise, Education updates information related to the Recovery Act's provisions on its Web site as it becomes available and directs LEAs to the Web site for Recovery Act guidance.	☐	In its notice of the first apportionment for the Recovery Act funds for Title I, Part A, for fiscal year 2009–2010, we confirmed that Education provided LEAs the provisions for eligibility, use of funds, and reporting related to these Recovery Act funds. Education provides information on its Web site for the programs impacted by the Recovery Act and directs LEAs to the Web site for Recovery Act guidance. However, Education is awaiting further guidance from the OMB regarding subrecipients' reporting requirements under Section 1512 of the Recovery Act.	☐	We confirmed that in its IDEA, Part B, Section 611, grant award notification to subrecipients, Education communicated the conditions of the grant. These conditions included the Recovery Act's allowable uses and Section 1512 reporting requirements for these funds. Education provides information on its Web site for the programs impacted by the Recovery Act and directs LEAs to the Web site for Recovery Act guidance. However, Education is awaiting further guidance from the OMB regarding subrecipients' reporting requirements under Section 1512 of the Recovery Act.
Acquisition/Contracts						
New requests for proposals issued under Recovery Act initiatives contain the necessary language to satisfy the provisions of the Recovery Act.	NA	There are no requests for proposals.	NA	There are no requests for proposals.	NA	There are no requests for proposals.
Contracts using Recovery Act funds are awarded in a prompt, fair, and reasonable manner.	NA	According to Education, it does not use contracts to award these funds. Instead, LEAs are required to apply, and Education will distribute the funds with its existing apportionment process. Education also stated that funding awarded to each LEA will be based upon the amount of recent reductions in state funding incurred by each district. Education believes that by using this methodology, it can ensure that funds are awarded in a prompt, fair, and reasonable manner. Education provided the methodology for allocating these funds. It also provided documentation of the preliminary appropriation amounts for LEAs.	NA	According to Education, it does not use contracts to award these funds. Instead, LEAs are required to apply, and Education will distribute the funds through its existing apportionment process. According to the director of Education's school and improvement division, funding will be awarded to all eligible LEAs that 1) fill out an on-line form stating that they want to receive the funds, and 2) have an approved LEA plan. The director also stated that the apportionment amount for each LEA will be based strictly on the formulas provided by the DOE. Education provided documentation showing the DOE's guidance on calculating allocations. It also provided documentation for preliminary Title I Recovery Act entitlements and payments for each LEA.	NA	According to Education, these Recovery Act funds are formula driven, and all SELPAs receive funding. The SELPAs do not have to apply for the funding, and, according to Education, they do not have to enter into a contract for the funding. According to Education, it will distribute these Recovery Act funds with its existing grant process, which ensures the funds are awarded in a prompt, fair, and reasonable manner. Education provided documentation showing the process to calculate grant funding. It also provided documentation of the grant award amounts for each SELPA.

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New contracts awarded using Recovery Act funds have the specific terms and clauses required.	NA	According to Education, it does not use contracts to award these funds.	NA	According to Education, it does not use contracts to award these funds.	NA	According to Education, it does not use contracts to award these funds.
Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.	■	According to the director of its fiscal policy division, Education will monitor projects at the local level. Also, according to Education, it will use its CPM process and will require state-level reporting to avoid unnecessary delays and cost overruns. As previously discussed, under the CPM process LEAs are visited only once every four years.	■	According to the director of Education's school fiscal services division, projects funded with these Recovery Act funds will be monitored at the local level to avoid unnecessary delays and cost overruns. Also, according to Education, it will use its CPM process and will require state level reporting to avoid unnecessary delays and cost overruns. As previously discussed, LEAs are visited only once every four years under the CPM process.	■	According to the director of Education's special education division, projects funded with these Recovery Act funds will be monitored at the local level to avoid unnecessary delays and cost overruns. Also, according to Education, it monitors its special education division programs with approximately 70 division staff. According to Education, for fiscal year 2007–08, this monitoring included on-site verification reviews of 15 of the 127 SELPAs. Education's process to select SELPAs for review partly consists of reviewing performance data collected yearly, and SELPAs self reviews which are conducted once every four years. Because so few SELPAs are reviewed each year, it appears that Education's monitoring process may not be sufficient for Recovery Act funds.
Contracts awarded using Recovery Act funds are transparent to the public.	NA	According to Education, it does not use contracts to award these funds. However, the director of the fiscal policy division stated that Education plans on making Recovery Act apportionments, which is the way these funds are awarded, transparent to the public by posting them on its Web site. We confirmed the director's assertion by reviewing the apportionments on Education's Web site.	NA	According to Education, it does not use contracts to award these funds. However, the director of the school and improvement division stated that Education plans on making Recovery Act apportionments, which is the way these funds are awarded, transparent to the public by posting them on its Web site .We confirmed the director's assertion by reviewing the apportionments on Education's Web site.	NA	According to Education, it does not use contracts to award these funds. However, the director of the special education division stated that Education plans on making Recovery Act grants, which is the way these funds are awarded, transparent to the public by posting them on its Web site. We confirmed the director's assertion by reviewing the apportionments on Education's Web site.

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The public benefits of Recovery Act funds used under contract are reported clearly, accurately, and in a timely manner.	NA	According to Education, it does not use contracts to award these funds. Also, according to Education, it is awaiting further guidance and clarification from the OMB on Section 1512 reporting requirements for these funds. Nevertheless, according to the director of Education's fiscal policy division, once it receives further guidance, Education anticipates that LEAs will provide clear, accurate, and timely information, which will demonstrate the public benefits of the funds, including the retention of teachers and certificated staff that would have otherwise been relieved of their duties due to state budget reductions.	NA	According to Education, it does not use contracts to award these funds. Also, according to Education, it is awaiting further guidance and clarification from the OMB on Section 1512 reporting requirements for the funds. Education stated that once it receives further guidance, it will develop a plan to report the public benefits of the use of these Recovery Act funds.	NA	According to Education, it does not use contracts to award these funds. Also, according to Education, it is awaiting further guidance and clarification from the OMB on Section 1512 reporting requirements for the funds. Education stated that once it receives further guidance, it will develop a plan to report the public benefits of the use of the Recovery Act funds.
Transparency and Accountability						
A governance body has been established to manage the overall implementation of the Recovery Act.	◆	According to Education, it has an internal group in place that will manage the overall implementation of the Recovery Act funding it receives. Education stated that its internal group consists of executives and top-level management from different branches of Education. Although Education provided us documentation of its internal group, it consisted of nothing more than a department organizational chart with the name of the staff who are part of its group highlighted. As a result, Education was unable to provide adequate documentation to support its assertion.	◆	According to Education, it has an internal group in place that will manage the overall implementation of the Recovery Act funding it receives. Education stated that its internal group consists of executives and top-level management from different branches of Education. Although Education provided us documentation of its internal group, it consisted of nothing more than a department organizational chart with the name of the staff who are part of its group highlighted. As a result, Education was unable to provide adequate documentation to support its assertion.	◆	According to Education, it has an internal group in place that will manage the overall implementation of the Recovery Act funding it receives. Education stated that its internal group consists of executives and top-level management from different branches of Education. Although Education provided us documentation of its internal group, it consisted of nothing more than a department organizational chart with the name of the staff who are part of its group highlighted. As a result, Education was unable to provide adequate documentation to support its assertion.

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The appropriate standard data elements that must be captured, classified, and aggregated for analysis and reporting to meet Recovery Act requirements under Section 1512 are identified.	☐	According to the director its fiscal policy division, Education is awaiting clarification from the OMB on standard data elements required for the Recovery Act-wide quarterly reports According to Education, until such clarification is available, it is unclear whether the existing reporting process can support the Recovery Act's Section 1512 reporting requirements. For example, on May 1, 2009, Education submitted comments to the OMB seeking clarification of Section 1512 reporting requirements and voicing its concerns about the reporting requirements. Specifically, according to Education, over 1,000 LEAs exist in California, most of which will receive Recovery Act funds. Education is concerned about the utility of quarterly narrative information on each LEA's planned use of Recovery Act funds. Education also stated that the quarterly reporting deadlines of 10 days after the close of each quarter leave little, if any time for LEA or state review and correction of data. Education stated that as of June 4, 2009, it had not yet received a response from the OMB. Furthermore, some of Education's concerns were also communicated to the OMB through the California Federal Economic Stimulus Task Force (Task Force) For example, according to the Task Force, OMB guidance requires narrative descriptions of each expenditure and activity. The Task Force also stated that assuming the State will be requiring this information from every LEA in California, in excess of 1,000 separate narrative descriptions would need to be compiled. The Task Force is unclear as to the format or the utility of this level of detail in narrative form.	☐	According to the director of its fiscal policy division, Education is awaiting clarification from the OMB on standard data elements required for the Recovery Act-wide quarterly reports. According to Education, until such clarification is available, it is unclear whether the existing reporting process can support the Recovery Act's Section 1512 reporting requirements. For example, on May 1, 2009, Education submitted comments to the OMB seeking clarification of Section 1512 reporting requirements and voicing concerns about the reporting requirements. Specifically, according to Education, over 1,000 LEAs exist in California, most of which will receive Recovery Act funds. Education is concerned about the utility of quarterly narrative information on each LEA's planned use of Recovery Act funds. 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According to Education, until such clarification is available, it is unclear whether the existing reporting process can support the Recovery Act's Section 1512 reporting requirements. For example, on May 1, 2009, Education submitted comments to the OMB seeking clarification of Section 1512 reporting requirements and voicing concerns about the reporting requirements. Specifically, according to Education, over 1,000 LEAs exist in California, most of which will receive Recovery Act funds. Education is concerned about the utility of quarterly narrative information on each LEA's planned use of Recovery Act funds. Education also stated that the quarterly reporting deadlines of 10 days after the close of each quarter leave little, if any time for LEA or state review and correction of data. Education stated that as of June 4, 2009, it had not yet received a response from the OMB. Furthermore, some of Education's concerns were also communicated to the OMB through the Task Force. 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Reporting mechanisms are in place to collect the required data from subrecipients to meet the Recovery Act's transparency provisions.	☐	According to the audits and investigations director, Education has not established reporting mechanisms to collect expenditure and performance data from its subrecipients to meet Section 1512 reporting requirements of the Recovery Act. Although Education has requested clarification on Recovery Act reporting requirements, it believes that barring any unforeseen complexities, it has the capacity to make modifications and upgrades to existing systems that should be sufficient to address the Recovery Act's provisions as long as it is given reasonable time and resources. The Task Force stated in comments submitted to the OMB that standard data elements of the Recovery Act appear to only require the recipient to comply with the Recovery Act's Section 1512 reporting requirements. As a result, the Task Force believes, funds allocated through the State to LEAs will make it difficult if not impossible to enforce Section 1512 reporting requirements on subrecipients (for example, LEAs) in California. The Task Force went on to say that California's constitution requires all provisions in excess of federal law to be 100 percent funded by the State. Thus, the Task Force believes it would not be fiscally practical for the State to require LEAs to provide it with the standard data elements. On May 1, 2009, Education submitted its concerns about this and other Section 1512 Recovery Act reporting requirements to the OMB. As of June 4, 2009, Education has not received a response to its concerns. However, according to Education, all LEAs that applied for these funds were required to agree to comply with any potential reporting requirements for this funding.	☐	According to the audits and investigations director, Education has not established reporting mechanisms to collect expenditure and performance data from its subrecipients to meet Section 1512 reporting requirements of the Recovery Act. Although Education has requested clarification on Recovery Act reporting requirements, it believes that barring any unforeseen complexities, it has the capacity to make modifications and upgrades to existing systems that should be sufficient to address the Recovery Act's provisions as long as it is given reasonable time and resources. The Task Force stated in comments submitted to the OMB that standard data elements of the Recovery Act appear to only require the recipient to comply with the Recovery Act's Section 1512 reporting requirements. 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However, according to Education, all LEAs that applied for these funds were required to agree to comply with any potential reporting requirements for this funding.	☐	According to the audits and investigations director, Education has not established reporting mechanisms to collect expenditure and performance data from its subrecipients to meet Section 1512 reporting requirements of the Recovery Act. Although Education has requested clarification on Recovery Act reporting requirements, it believes that barring any unforeseen complexities, it has the capacity to make modifications and upgrades to existing systems that should be sufficient to address the Recovery Act's provisions as long as it is given reasonable time and resources. The Task Force stated in comments submitted to the OMB that standard data elements of the Recovery Act appear to only require the recipient to comply with the Recovery Act's Section 1512 reporting requirements. As a result, the Task Force believes, funds allocated through the State to LEAs will make it difficult if not impossible to enforce Section 1512 reporting requirements on subrecipients (for example, LEAs) in California. The Task Force went on to say that California's Constitution requires all provisions in excess of federal law to be 100 percent funded by the State. Thus, the Task Force believes it would not be fiscally practical for the State to require LEAs to provide it with the standard data elements. On May 1, 2009, Education submitted its concerns about this and other Section 1512 Recovery Act reporting requirements to the OMB. As of June 4, 2009, Education has not received a response to its concerns. However, according to Education, all LEAs that accepted the grant award were required to agree to comply with any potential reporting requirements for this funding.

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Reports published under the Recovery Act are reviewed and approved for accuracy and completeness (internal controls related to reporting).	■	According to Education, it has an internal group that will develop processes to check for accuracy and completeness of Recovery Act reports. Education stated that the internal group is awaiting clarification from the OMB on Section 1512 reporting requirements before it develops processes to check for accuracy and completeness of information. For example, Education is awaiting clarification on Section 1512 reporting requirements for its subrecipients (for example, LEAs) in reporting to Education and Section 1512 reporting requirements for Education to report the information to the federal government. According to Education, it does not have any documentation to support its assertion that such a group has been established.	■	According to Education, it has an internal group that will develop processes to check for accuracy and completeness of Recovery Act reports. Education stated that the internal group is awaiting clarification from the OMB on Section 1512 reporting requirements before it develops processes to check for accuracy and completeness of information. For example, Education is awaiting clarification on Section 1512 reporting requirements for its subrecipients (for example, LEAs) in reporting to Education and Section 1512 reporting requirements for Education to report the information to the federal government. According to Education, it does not have any documentation to support its assertion that such a group has been established.	■	According to Education, it has an internal group that will develop processes to check for accuracy and completeness of Recovery Act reports. Education stated that the internal group is awaiting clarification from the OMB on Section 1512 reporting requirements before it develops processes to check for accuracy and completeness of information. For example, Education is awaiting clarification on Section 1512 reporting requirements for its subrecipients (for example, LEAs) in reporting to Education and Section 1512 reporting requirements for Education to report the information to the federal government. According to Education, it does not have any documentation to support its assertion that such a group has been established.
Reports are prepared on a timely basis.	■	Although Recovery Act reports are due 10 days after the end of each calendar quarter, it appears that Education might not be prepared to submit these reports on a timely basis. According to Education, it does not yet know the types of reports it will be required to prepare, so it is difficult to state whether it will be able to prepare them on a timely basis. Education also stated that reporting 10 days after the end of each quarter would be a huge workload considering the large number of LEAs receiving Recovery Act funds and given that Education does not currently report on a quarterly basis. According to Education, it does not have any documentation describing how it would be able to submit reports on a timely basis because it does not know what the Section 1512 reporting requirements will be for the Recovery Act. On May 1, 2009, Education informed the OMB that the quarterly reporting deadline of 10 days after the close of each quarter leaves little, if any time for it to review and correct data reported. As of June 4, 2009, Education has not received a response to its concerns.	■	Although Recovery Act reports are due 10 days after the end of each calendar quarter, it appears that Education might not be prepared to submit these reports on a timely basis. According to Education, it does not yet know the types of reports it will be required to prepare, so it is difficult to state whether it will prepare them on a timely basis. Education also stated that reporting 10 days after the end of each quarter would be a huge workload considering the large number of LEAs receiving Recovery Act funds and given that Education does not currently report on a quarterly basis. According to Education, it does not have any documentation describing how it would be able to submit reports on a timely basis because it does not know what the Section 1512 reporting requirements will be for the Recovery Act. On May 1, 2009, Education informed the OMB that the quarterly reporting deadline of 10 days after the close of each quarter leaves little, if any time for it to review and correct data reported. As of June 4, 2009, Education has not received a response to its concerns.	■	Although Recovery Act reports are due 10 days after the end of each calendar quarter, it appears that Education might not be prepared to submit these reports on a timely basis. According to Education, it does not yet know the types of reports it will be required to prepare, so it is difficult to state whether it will prepare them on a timely basis. Education also stated that reporting 10 days after the end of each quarter would be a huge workload considering the large number of LEAs receiving Recovery Act funds and given that Education does not currently report on a quarterly basis. According to Education, it does not have any documentation describing how it would be able to submit reports on a timely basis because it does not know what the Section 1512 reporting requirements will be for the Recovery Act. On May 1, 2009, Education informed the OMB that the quarterly reporting deadline of 10 days after the close of each quarter leaves little, if any time for it to review and correct data reported. As of June 4, 2009, Education has not received a response to its concerns.

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The department regularly monitors subrecipient compliance with federal program requirements (internal controls related to subrecipient monitoring).	☐	According to Education, it monitors subrecipients (for example, LEAs) for State and federal programs and fiscal compliance through the CPM and auditing processes. However, the CPM monitors each LEA only once every four years. Although they do not qualify as adequate *during-the-award* monitoring, Education noted that the LEAs also receive annual OMB A-133 audits. These audits are required to be submitted to Education within nine months after the fiscal year being audited. Consequently because the OMB A-133 audits are performed after the funds have already been spent, they do nothing to satisfy the *during-the award* monitoring requirement. Also, according to the director of its fiscal policy division, Education's current subrecipient monitoring is based on after-the-fact reporting and subsequent reviews via site visits and desk reviews. Moreover, the director of the fiscal policy division believes Education will need additional resources if the federal guidance that it is awaiting requires monitoring of all subrecipients (for example, LEAs) as the activities and expenditures are occurring, possibly as frequently as quarterly. The director of the fiscal policy division stated that Education will submit waiver requests, as allowable under the Recovery Act, to access additional administrative dollars. In addition, according to the director of the fiscal policy division, Education will need Finance and	☐	According to Education, it monitors LEAs for state and federal programs and fiscal compliance through the CPM and auditing processes. However, the CPM monitors each LEA only once every four years. Although they do not qualify as adequate *during-the-award* monitoring, Education noted that the LEA also receive annual OMB A-133 audits. These audits are required to be submitted to Education within nine months after the fiscal year being audited. Consequently because the OMB A-133 audits are done after the funds have already been spent, they do nothing to satisfy the *during-the award* monitoring requirement. Also, according to the director of its school fiscal services division, Education's current subrecipient monitoring is based on after-the-fact reporting and subsequent reviews via site visits and desk reviews. Moreover, the director of the school fiscal services division believes Education will need additional resources if the federal guidance that it is awaiting requires monitoring of all subrecipients (for example, LEAs) as the activities and expenditures are occurring, possibly as frequently as quarterly. The director of the school fiscal services division stated that Education will submit waiver requests, as allowable under the Recovery Act, to access additional administrative dollars. In addition, according to the director of the school fiscal services division, Education will need Finance	☐	According to the director of Education's special education division, existing audit procedures will be used to verify that funds are being used for authorized and appropriate purposes, and limit and identify potential fraud, waste, error, and abuse. According to Education, it monitors its special education division programs with approximately 70 division staff. According to Education, for fiscal year 2007–08, this monitoring includes on-site verification reviews of 15 of the 127 SELPAs. Education's process to select SELPAs for review partly consists of reviewing performance data collected yearly, and SELPAs self reviews which are conducted once every four years. Because so few SELPAs are reviewed each year, it appears that Education's monitoring process may not be sufficient for Recovery Act funds. To ensure that its existing audit and monitoring procedures are effective for this new line of funding, Education must fully correct the three subrecipient monitoring internal control weaknesses reported in the 2007–08 Single Audit for special education programs it expects to receive Recovery Act funds for in fiscal years 2008–09 and 2009–10. Education is still implementing its corrective action for two of the three internal control weaknesses reported for special education grants to states.

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AREA OF PROGRAM RISK	STATE FISCAL STABILIZATION FUND—STATE ALLOCATIONS—RESTORATION OF K-12 AND CSU/UC CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.394	TITLE I—GRANTS TO LOCAL EDUCATION AGENCIES AND SCHOOL IMPROVEMENT (TARGETED GRANT, FINANCE INCENTIVE GRANT, AND SCHOOL IMPROVEMENT GRANT) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.389	IDEA—PART B—SPECIAL EDUCATION GRANTS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 84.391
Continued from previous page. The department regularly monitors subrecipient compliance with federal program requirements (internal controls related to subrecipient monitoring).	the Legislature to both allow expenditure of additional dollars and restore cuts that have been made to federal administrative dollars through the state budget process, which threatens Education's ability to do the current level of monitoring. To ensure that its existing audit procedures are effective for this new line of funding, Education must fully correct the six subrecipient monitoring internal control weaknesses reported in the 2007–08 Single Audit for programs it is expected to receive Recovery Act funds for in fiscal years 2008–09 and 2009–10. Education is still implementing its corrective action for five of the six internal control weaknesses reported.	and the Legislature to both allow expenditure of additional dollars and restore cuts that have been made to federal administrative dollars through the state budget process, which threatens Education's ability to do the current level of monitoring. To ensure that its existing audit procedures are effective for Recovery Act funds coming into this Title I program, Education must fully correct the two subrecipient monitoring internal control weaknesses reported in the 2007–08 Single Audit for the Title I programs it expects to receive Recovery Act funds for in fiscal years 2008–09 and 2009–10. Education is still implementing its corrective action for both of the internal control weaknesses reported.	

Sources: Interviews of key Education personnel, review of relevant documents pertaining to processes and procedures Education already has in use and has developed or will develop for implementing provisions of the Recovery Act.

Note: For detailed descriptions of the legend refer to pages 46 and 47.

NA = Not applicable.

✓ = Prepared.

◆ = Mostly prepared.

■ = Moderately prepared.

✗ = Not prepared.

Table A.2
The Department of Health Care Services' Preparedness to Administer the American Recovery and Reinvestment Act of 2009 Funds for the Program for Which It Expects to Receive or Be Awarded $50 Million or More for Fiscal Year 2008–09

	TEMPORARY INCREASE OF MEDICAID FEDERAL MEDICAL ASSISTANCE PERCENTAGES (FMAP)	
AREA OF PROGRAM RISK	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.778	
Overall Preparedness		
Overall preparedness to track, monitor, and report on the American Recovery and Reinvestment Act of 2009 (Recovery Act) funds and to comply with the Recovery Act's provisions.	◆	Based on the most frequent occurence of the color symbols below, the Department of Health Care Services (Health Care Services) appears mostly prepared to implement the provisions of the Recovery Act for the temporary increase of FMAP.
Human Capital		
A sufficient level of personnel exists to manage the programs included in the Recovery Act.	◆	According to its associate director, Health Care Services' management has determined it currently has a sufficient level of personnel to manage the increased FMAP funding. Although Health Care Services did not perform a written analysis to support its conclusions, the associate director stated that discussions took place within Health Care Services to determine its resource needs. Health Care Services based its conclusion on these informal assessments and past experiences when it received similar increases in federal funding and the resources needed to manage the accounting of funds.
Staff is adequately trained to effectively implement the Recovery Act's provisons.	◆	The chief of its accounting section indicated that Health Care Services' staff is adequately trained to implement the provisions of the Recovery Act because there have been several meetings on the topic. When we asked for notes or minutes from these meetings, the chief of the accounting section explained such documentation does not exist. According to Health Care Services' associate director, while there has been no formal training for implementing the Recovery Act's provisions, there have been regular meetings to provide guidance to staff on changes resulting from the FMAP increase. The associate director also stated that Health Care Services engaged in several phone calls with the Centers for Medicare and Medicaid Services (CMS), a part of the U.S. Department of Health and Human Services, to discuss the FMAP provisions and the tracking of payments. The chief of the accounting section provided a series of e-mails regarding various meetings between Health Care Services and CMS as support for her statement.
Financial and Operational Systems		
Recovery Act funds are clearly distinguishable (for example, distinguished by using separate accounts).	◆	According to the chief of its accounting section, Health Care Services currently does not use accounts within its automated accounting system to track its Recovery Act funds separately from regular FMAP funds. However, the chief of the accounting section stated that Health Care Services complies with the provision by drawing down and tracking Recovery Act FMAP funds separately outside of its normal accounting system. She also stated that Health Care Services manually calculates increases to FMAP under the Recovery Act. Finally, she stated that Health Care Services has made changes to its accounting system, and it expects to implement the changes on July 1, 2009.
Financial and operational systems are configured to manage and control Recovery Act funds.	◆	According to the chief of its accounting section, Health Care Services' internal accounting system is not currently configured to calculate the increased FMAP funding provided by the Recovery Act. However, the chief of the accounting section stated that Health Care Services expects to have it operable and in use by July 1, 2009. She also stated that in the meantime, Health Care Services is manually producing the calculations for the increased percentage and has several binders of receipts and expenditures to comply with the tracking and monitoring of the funds. As a whole, the associate director believes that Health Care Services' existing processes will be sufficient for handling the changes made by the Recovery Act.

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	TEMPORARY INCREASE OF MEDICAID FEDERAL MEDICAL ASSISTANCE PERCENTAGES (FMAP)	
AREA OF PROGRAM RISK		CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.778
Financial and operational systems support the increase in volume of contracts, grants, and loans.	◆	Health Care Services believes that the Recovery Act will not result in an increase in the volume of contracts, grants, and loans, because the increased federal funding has only resulted in a net decrease in the State's General Fund contributions, and payments for services rendered have not changed. Health Care Services did not perform a formal written analysis to support how it came to this conclusion. According to its associate director, it is likely that Health Care Services will see increases in enrollment and claims as a result of the poor economy.
Fraud, Waste, and Abuse		
Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are minimized and mitigated (internal controls related to activities allowed and allowable costs).	◆	The associate director believes that Health Care Services' existing internal controls for preventing unauthorized use of FMAP funds will be sufficient for the increased FMAP funds because the Recovery Act does not appear to make significant changes to the existing FMAP program. The associate director stated that no formal written analysis was performed to assess whether Health Care Services' existing level of internal controls would be adequate to ensure the proper use of Recovery Act funds. Instead, Health Care Services based its conclusion on many internal discussions that focused on the provisions that were changed by the Recovery Act. However, upon review of the, *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008*, Report 2008-002, May 2009 (Single Audit covering fiscal year 2007–08), we identified four internal control weaknesses regarding allowable activities for Health Care Services. As of May 2009, Health Care Services indicated that it had partially implemented corrective action plans for three of these weaknesses. Health Care Services indicated that it had modified its computer system to address the fourth weakness regarding the timeliness of its reporting to drug manufacturers. Health Care Services believes its efforts will effectively address the weakness when it mails future reports sometime after June 2009; however, it is unable to validate its claim.
Policies and Processes		
Specific Recovery Act provisions are incorporated into department policies.	✓	Health Care Services provided documents showing that it assessed whether it needed to incorporate the changes in eligibility provisions into its policies. Health Care Services has written policies regarding eligibility. Further, Health Care Services has informed counties of applicable FMAP changes under the Recovery Act. For instance, Health Care Services informed county welfare directors, county welfare administrative officers, and other county officials that because the State amended its law to implement the Recovery Act FMAP, counties must implement changes in their procedures.
Written departmental policies provide the following procedures for: (1) requesting cash advances as close as is administratively possible to actual cash outlays; (2) monitoring of cash management activities; and (3) repayment of excess interest earnings when required (internal controls related to cash management).	NA	The chief of Health Care Services' accounting section stated that Health Care Services reviews its accounts every Wednesday and Friday as part of its drawdown process. The procedures for this process include generating a cash management report for supervisory review. The deputy director of administration at Health Care Services stated that cash advances do not apply to Recovery Act funding. Health Care Services does not issue advances on Medi-Cal payments, and it coordinates any draw of federal funds with the State Controller's Office (State Controller) to ensure that claim schedules are paid by the State Controller the day after federal funds are deposited in the state treasury. He also explained that the Department of Finance (Finance) calculates any interest owed and coordinates repayment with the federal government. No internal control weaknesses for cash management were identified during the Single Audit covering fiscal year 2007–08.

AREA OF PROGRAM RISK	TEMPORARY INCREASE OF MEDICAID FEDERAL MEDICAL ASSISTANCE PERCENTAGES (FMAP) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.778	
Written policies and procedures have been established to provide direction for making and documenting eligibility determinations for Recovery Act fund grants (internal controls related to eligibility).		Health Care Services has written policies regarding eligibility. CMS provided Health Care Services with information and answers to frequently asked questions regarding eligibility provisions for Recovery Act FMAP. Further, Health Care Services has informed counties of applicable FMAP changes under the Recovery Act. For instance, Health Care Services informed county welfare directors, county welfare administrative officers, and other county officials that because the State amended its law to implement the Recovery Act FMAP, counties must implement changes in their procedures. However, upon review of the Single Audit covering fiscal year 2007–08, we identified four internal control weaknesses regarding eligibility at Health Care Services. As of May 2009, Health Care Services indicated that it had partially implemented its corrective action plans for these findings.
Corrective action plan processes are in place to promptly resolve any audit findings identified that may impact the department's ability to successfully implement the Recovery Act.		According to its associate director, Health Care Services makes every effort to promptly resolve audit findings and comply with audit recommendations. She stated that final audit reports are distributed to appropriate parties within Health Care Services, including executive staff and program staff responsible for implementing recommendations. Health Care Services' policies support this statement. One provision of these policies states that its audit coordinator is responsible for ensuring the timely completion of status reports related to implementation of recommendations. Of the 11 deficiencies identified in the Single Audit covering fiscal year 2007–08 related to control weaknesses for the FMAP Health Care Services is in the process of correcting all 11.
New requirements, conditions, and guidance have been provided to the subrecipients regarding Recovery Act funds.		Health Care Services has informed counties and other subrecipients in writing of applicable FMAP changes under the Recovery Act. For instance, Health Care Services informed county welfare directors, county welfare administrative officers, and other county officials that because the State amended its law to implement the Recovery Act FMAP, counties must implement changes in their procedures. Health Care Services also e-mailed instructions providing examples of how to track expenditures of the increased FMAP separate from the regular FMAP and provided invoice formatting advice to state agencies with which Health Care Services has interagency agreements.
Acquisition/Contracts		
New requests for proposals issued under Recovery Act initiatives contain the necessary language to satisfy the provisions of the Recovery Act.	NA	The associate director indicated that no new requests for proposals specific to Recovery Act funding have been issued. She also believes that the Recovery Act changes do not apply to Health Care Services' contracting practices for FMAP. Health Care Services has not conducted a formal written analysis to support this conclusion.
Contracts using Recovery Act funds are awarded in a prompt, fair, and reasonable manner.	NA	The associate director is unaware of any contracts that have been entered into specific to Recovery Act funding. She also believes that the Recovery Act changes do not apply to Health Care Services' contracting practices for FMAP. Health Care Services has not conducted a formal written analysis to support this conclusion.
New contracts awarded using Recovery Act funds have the specific terms and clauses required.	NA	The associate director believes that the Recovery Act changes do not apply to Health Care Services' contracting practices for FMAP. Health Care Services has not conducted a formal written analysis to support this conclusion.
Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.	NA	The associate director believes that the Recovery Act changes do not apply to Health Care Services' contracting practices for FMAP. Health Care Services has not conducted a formal written analysis to support this conclusion.
Contracts awarded using Recovery Act funds are transparent to the public.	NA	As previously stated, the associate director is unaware of any contracts that have been entered into specific to Recovery Act funding. However, she also believes that the Recovery Act changes do not apply to Health Care Services' contracting practices for FMAP. Health Care Services has not conducted a formal written analysis to support this conclusion.

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AREA OF PROGRAM RISK	TEMPORARY INCREASE OF MEDICAID FEDERAL MEDICAL ASSISTANCE PERCENTAGES (FMAP) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.778	
The public benefits of Recovery Act funds used under contract are reported clearly, accurately, and in a timely manner.	■	The associate director stated that Health Care Services believes that Medicaid, which is partially funded by FMAP, qualifies as an entitlement program, and therefore, would not be subject to the Recovery Act's Section 1512 reporting requirements unless the OMB states otherwise. Health Care Services is awaiting clarification about which federal programs are considered entitlement or mandatory programs.
Transparency and Accountability		
A governance body has been established to manage the overall implementation of the Recovery Act.	✓	According to its associate director, Health Care Services has established department leads for managing implementation of the Recovery Act. These leads are the associate director and the deputy director of administration.
The appropriate standard data elements that must be captured, classified, and aggregated for analysis and reporting to meet Recovery Act requirements under Section 1512 are identified.	■	The associate director stated that Health Care Services believes that Medicaid, which is partially funded by FMAP, qualifies as an entitlement program, and therefore, would not be subject to the Recovery Act's Section 1512 reporting requirements unless the OMB states otherwise. Health Care Services is awaiting clarification about which federal programs are considered entitlement or mandatory programs.
Reporting mechanisms are in place to collect the required data from subrecipients to meet the Recovery Act's transparency provisions.	■	The associate director stated that Health Care Services believes that Medicaid, which is partially funded by FMAP, qualifies as an entitlement program, and therefore, would not be subject to the Recovery Act's Section 1512 reporting requirements unless the OMB states otherwise. Health Care Services is awaiting clarification about which federal programs are considered entitlement or mandatory programs.
Reports published under the Recovery Act are reviewed and approved for accuracy and completeness (internal controls related to reporting).	■	The associate director stated that Health Care Services believes that Medicaid, which is partially funded by FMAP, qualifies as an entitlement program, and therefore, would not be subject to the Recovery Act's Section 1512 reporting requirements unless the OMB states otherwise. Health Care Services is awaiting clarification about which federal programs are considered entitlement or mandatory programs.
Reports are prepared on a timely basis.	■	The associate director stated that Health Care Services believes that Medicaid, which is partially funded by FMAP, qualifies as an entitlement program, and therefore, would not be subject to the Recovery Act's Section 1512 reporting requirements unless the OMB states otherwise. Health Care Services is awaiting clarification about which federal programs are considered entitlement or mandatory programs.
The department regularly monitors subrecipient compliance with federal program requirements (internal controls related to subrecipient monitoring).	◆	According to Health Care Services' associate director, it has engaged in discussions with the contracted agencies regarding how they need to account for services subject to the increased FMAP because the federal government is requiring states to track and account for services that are subject to both the regular FMAP and the increased FMAP. The Single Audit covering fiscal year 2007–08 identified two internal control weaknesses regarding subrecipient monitoring for Health Care Services. As of May 2009, Health Care Services indicated that it partially implemented its corrective action plan for one weakness and the other was fully corrected. However, our analysis found that this weakness has not been fully corrected because Health Care Services did not amend all of its contracts to include federal award information. Instead, Health Care Services only implemented our recommendation on new and recently amended contracts. Health Care Services believes the weakness will be fully corrected when the remaining contracts expire on June 30, 2009.

Sources: Interviews of key Health Care Services personnel; and review of relevant documents pertaining to processes and procedures Health Care Service already has in use, has developed, or will develop for implementing provisions of the Recovery Act.

Note: For detailed descriptions of the legend refer to pages 46 and 47.

NA = Not applicable.

✓ = Prepared.

◆ = Mostly prepared.

■ = Moderately prepared.

✗ = Not prepared.

Table A.3.1

The Employment Development Department's Preparedness to Administer the American Recovery and Reinvestment Act of 2009 Funds for Programs for Which It Is Expected to Receive or Be Awarded $50 Million or More for Fiscal Year 2008–09

AREA OF PROGRAM RISK	WORKFORCE INVESTMENT ACT—ADULT WORK SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.258		WORKFORCE INVESTMENT ACT—YOUTH SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.259		WORKFORCE INVESTMENT ACT—DISLOCATED WORKERS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.260	
Overall Preparedness						
Overall preparedness to track, monitor, and report on American Recovery and Reinvestment Act of 2009 (Recovery Act) funds and to comply with the Recovery Act's provisions.		Based on the most frequent occurrence of the color symbols below, the Employment Development Department (EDD) appears moderately prepared to implement the provisions of the Recovery Act for the Workforce Investment Act—Adult Work Services Program.		Based on the most frequent occurrence of the color symbols below, EDD appears moderately prepared to implement the provisions of the Recovery Act for the Workforce Investment Act—Youth Services Program.		Based on the most frequent occurrence of the color symbols below, EDD appears moderately prepared to implement the provisions of the Recovery Act for the Workforce Investment Act—Dislocated Workers Program.
Human Capital						
A sufficient level of personnel exists to manage the programs included in the Recovery Act.		A budget and administration manager at EDD stated that the current level of personnel is sufficient to manage the Recovery Act funds for this Workforce Investment Act (WIA) program. Additionally, the deputy director of EDD's program review branch noted that for EDD, the Recovery Act was used as a mechanism to augment funding for pre-existing programs. He further stated that in most cases, the Recovery Act either did not modify existing federal programs or it made very limited changes that did not require modifications to existing processess, procedures, or policies. However, as noted later in this table, EDD has already redirected one full-time auditor position to the compliance monitoring section and plans to redirect three additional employees to the section no later than July 1, 2009. The purpose of redirecting these staff is to assist in the monitoring of subrecipients of WIA funds. Finally, the deputy director stated that EDD has requested budget and position authority to hire an additional 11 analysts, two managers, and one support staff to assist with the compliance monitoring reviews. Therefore, we conclude that despite EDD's assertion that the Recovery Act imposes few, if any, changes on the WIA program, EDD currently does not have sufficient staff to fully manage the program.		A budget and administration manager at EDD stated that the current level of personnel is sufficient to manage the Recovery Act funds for this WIA program. Additionally, the deputy director of EDD's program review branch noted that for EDD, the Recovery Act was used as a mechanism to augment funding for pre-existing programs. He further stated that in most cases, the Recovery Act either did not modify existing federal programs or it made very limited changes that did not require modifications to existing processess, procedures, or policies. However, as noted later in this table, EDD has already redirected one full-time auditor position to the compliance monitoring section and plans to redirect three additional employees to the section no later than July 1, 2009. The purpose of redirecting these staff is to assist in the monitoring of subrecipients of WIA funds. Finally, the deputy director stated that EDD has requested budget and position authority to hire an additional 11 analysts, two managers, and one support staff to assist with the compliance monitoring reviews. Therefore, we conclude that despite EDD's assertion that the Recovery Act imposes few, if any, changes on the WIA program, EDD currently does not have sufficient staff to fully manage the program.		A budget and administration manager at EDD stated that the current level of personnel is sufficient to manage the Recovery Act funds for this WIA program. Additionally, the deputy director of EDD's program review branch noted that for EDD, the Recovery Act was used as a mechanism to augment funding for pre-existing programs. He further stated that in most cases, the Recovery Act either did not modify existing federal programs or it made very limited changes that did not require modifications to existing processess, procedures, or policies. However, as noted later in this table, EDD has already redirected one full-time auditor position to the compliance monitoring section and plans to redirect three additional employees to the section no later than July 1, 2009. The purpose of redirecting these staff is to assist in the monitoring of subrecipients of WIA funds. Finally, the deputy director stated that EDD has requested budget and position authority to hire an additional 11 analysts, two managers, and one support staff to assist with the compliance monitoring reviews. Therefore, we conclude that despite EDD's assertion that the Recovery Act imposes few, if any, changes on the WIA program, EDD currently does not have sufficient staff to fully manage the program.

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AREA OF PROGRAM RISK	WORKFORCE INVESTMENT ACT—ADULT WORK SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.258		WORKFORCE INVESTMENT ACT—YOUTH SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.259		WORKFORCE INVESTMENT ACT—DISLOCATED WORKERS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.260	
Staff is adequately trained to effectively implement the Recovery Act's provisons.	▢	According to the deputy director of the program review branch, EDD staff is prepared to implement Recovery Act funds, as the funds simply augment federal funds EDD receives annually for programs it currently administers. The deputy director further stated that, with few exceptions, the Recovery Act's provisions coincide with existing provisions for this program. EDD staff has attended webcasts presented by the U.S. Department of Labor (DOL) to obtain further guidance; however, the webcasts have merely informed EDD that guidance will be forthcoming. EDD plans to train its staff as new information regarding Recovery Act funds becomes available.	▢	According to the deputy director of the program review branch, EDD staff is prepared to implement Recovery Act funds, as the funds simply augment federal funds EDD receives annually for programs it currently administers. The deputy director further stated that, with few exceptions, the Recovery Act's provisions coincide with existing provisions for this program. There may be additional guidance and training necessary for a summer youth program that is not an existing program, and EDD states that it is currently developing curriculum to train staff for subrecipient compliance monitoring of this program. EDD staff has attended webcasts presented by DOL to obtain further guidance; however, the webcasts have merely informed EDD that guidance will be forthcoming. EDD plans to train its staff as new information regarding Recovery Act funds becomes available.	▢	According to the deputy director of the program review branch, EDD staff is prepared to implement Recovery Act funds, as the funds simply augment federal funds EDD receives annually for programs it currently administers. The deputy director further stated that, with few exceptions, the Recovery Act's provisions coincide with existing provisions for this program. EDD staff has attended webcasts presented by DOL to obtain further guidance; however, the webcasts have merely informed EDD that guidance will be forthcoming. EDD plans to train its staff as new information regarding Recovery Act funds becomes available.
Financial and Operational Systems						
Recovery Act funds are clearly distinguishable (for example, distinguished by using separate accounts).	✓	We confirmed that EDD has prepared separate grant codes to account for Recovery Act funds.	✓	We confirmed that EDD prepared separate grant codes to account for Recovery Act funds.	✓	We confirmed that EDD has prepared separate grant codes to account for Recovery Act funds.
Financial and operational systems are configured to manage and control Recovery Act funds.	◆	According to the deputy director of its program review branch, EDD's has existing financial and operational systems that are sufficient to manage Recovery Act funds. Although we requested documentation supporting this assertion, EDD was unable to provide such support.	◆	According to the deputy director of its program review branch, EDD's has existing financial and operational systems that are sufficient to manage Recovery Act funds. Although we requested documentation supporting this assertion, EDD was unable to provide such support.	◆	According to the deputy director of its program review branch, EDD's has existing financial and operational systems that are sufficient to manage Recovery Act funds. Although we requested documentation supporting this assertion, EDD was unable to provide such support.
Financial and operational systems support the increase in volume of contracts, grants, and loans.	✓	We verified that EDD's financial accounting system is able to manage this increased workload by reviewing federal financial reports prepared for Recovery Act funds. Additionally, we noted that these reports were accepted by DOL.	✓	We verified that EDD's financial accounting system is able to manage this increased workload by reviewing federal financial reports prepared for Recovery Act funds. Additionally, we noted that these reports were accepted by DOL.	✓	We verified that EDD's financial accounting system is able to manage this increased workload by reviewing federal financial reports prepared for Recovery Act funds. Additionally, we noted that these reports were accepted by DOL.

AREA OF PROGRAM RISK		WORKFORCE INVESTMENT ACT—ADULT WORK SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.258		WORKFORCE INVESTMENT ACT—YOUTH SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.259		WORKFORCE INVESTMENT ACT—DISLOCATED WORKERS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.260
Fraud, Waste, and Abuse						
Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are minimized and mitigated (internal controls related to activities allowed and allowable costs).		According to a manager in the budget and administration group, EDD will use existing internal controls to ensure appropriate use of Recovery Act funds. Additionally, we found no instances of disallowed costs or unallowable activities during our Single Audit covering fiscal year 2007–08 when these controls were in place. EDD staff provided us documentation showing that it conducted three on-site reviews of CBOs during fiscal year 2008–09. However, we identified an internal control weakness in our most recent Single Audit covering fiscal year 2007–08 regarding subrecipient monitoring of community-based organizations (CBOs) funded under WIA. Specifically, none of the CBOs that received federal WIA funding in fiscal year 2007–08 received on-site reviews by EDD. In total, 38 CBOs received $83.5 million in federal WIA funds during fiscal year 2007–08. Furthermore, since the State Recovery Portal shows that EDD will receive an estimated $415.3 million in Recovery Act funds for the WIA program in fiscal year 2008–09 alone, it is likely that the CBOs will receive even more money in future years. Therefore, it will be even more critical that EDD perform on-site reviews.		According to a manager in the budget and administration group, EDD will use existing internal controls to ensure appropriate use of Recovery Act funds. Additionally, we found no instances of disallowed costs or unallowable activities during our Single Audit covering fiscal year 2007–08 when these controls were in place. EDD staff provided us documentation showing that it conducted three on-site reviews of CBOs during fiscal year 2008-09. However, we identified an internal control weakness in our most recent Single Audit covering fiscal year 2007–08 regarding subrecipient monitoring of community-based organizations (CBOs) funded under WIA. Specifically, none of the CBOs that received federal WIA funding in fiscal year 2007–08 received on-site reviews by EDD. In total, 38 CBOs received $83.5 million in federal WIA funds during fiscal year 2007–08. Furthermore, since the State Recovery Portal shows that EDD will receive an estimated $415.3 million in Recovery Act funds for the WIA program in fiscal year 2008–09 alone, it is likely that the CBOs will receive even more money in future years. Therefore, it will be even more critical that EDD perform on-site reviews.		According to a manager in the budget and administration group, EDD will use existing internal controls to ensure appropriate use of Recovery Act funds. Additionally, we found no instances of disallowed costs or unallowable activities during our Single Audit covering fiscal year 2007–08 when these controls were in place. EDD staff provided us documentation showing that it conducted three on-site reviews of CBOs during fiscal year 2008–09. We identified an internal control weakness in our most recent Single Audit covering fiscal year 2007–08 regarding subrecipient monitoring of community-based organizations (CBOs) funded under WIA. Specifically, none of the CBOs that received federal WIA funding in fiscal year 2007–08 received on-site reviews by EDD. In total, 38 CBOs received $83.5 million in federal WIA funds during fiscal year 2007–08. Furthermore, since the State Recovery Portal shows that EDD will receive an estimated $415.3 million in Recovery Act funds for the WIA program in fiscal year 2008–09 alone, it is likely that the CBOs will receive even more money in future years. Therefore, it will be even more critical that EDD perform on-site reviews.
Policies and Processes						
Specific Recovery Act provisions are incorporated into department policies.		According to a manager in the budget and administration group, EDD will use existing financial reporting systems, but it is awaiting guidance concerning performance reporting required under Section 1512 of the Recovery Act and, as of April 30, 2009, EDD has not implemented any policies unique to the Recovery Act.		According to a manager in the budget and administration group, EDD will use existing financial reporting systems, but it is awaiting guidance concerning performance reporting required under Section 1512 of the Recovery Act and, as of April 30, 2009, EDD has not implemented any policies unique to the Recovery Act.		According to a manager in the budget and administration group, EDD will use existing financial reporting systems, but it is awaiting guidance concerning performance reporting required under Section 1512 of the Recovery Act and, as of April 30, 2009, EDD has not implemented any policies unique to the Recovery Act.

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AREA OF PROGRAM RISK	WORKFORCE INVESTMENT ACT—ADULT WORK SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.258		WORKFORCE INVESTMENT ACT—YOUTH SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.259		WORKFORCE INVESTMENT ACT—DISLOCATED WORKERS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.260	
Written departmental policies provide the following procedures: (1) requesting cash advances as close as is administratively possible to actual cash outlays; (2) monitoring of cash management activities; and (3) repayment of excess interest earnings when required (internal controls related to cash management).	✓	According to a manager in the budget and administration group, EDD will use existing cash management processes to ensure proper cash drawdown of Recovery Act funds. We also obtained copies of EDD's written Workforce Investment Act of 1998 (WIA) cash management procedures. Additionally, we did not identify any cash management control weaknesses during our Single Audit covering fiscal year 2007–08.	✓	According to a manager in the budget and administration group, EDD will use existing cash management processes to ensure proper cash drawdown of Recovery Act funds. We also obtained copies of EDD's written WIA cash management procedures. Additionally, we did not identify any cash management control weaknesses during our Single Audit covering fiscal year 2007–08.	✓	According to a manager in the budget and administration group, EDD will use existing cash management processes to ensure proper cash drawdown of Recovery Act funds. We also obtained copies of EDD's written WIA cash management procedures. Additionally, we did not identify any cash management control weaknesses during our Single Audit covering fiscal year 2007–08.
Written policies and procedures have been established to provide direction for making and documenting eligibility determinations for Recovery Act grants (internal controls related to eligibility).	◆	According to the chief of accounting, EDD has not issued any new eligibility guidelines for Recovery Act funding because eligibility determination is based on existing guidelines for WIA funds. Although we requested documentation supporting this assertion, EDD was unable to provide such support.	✓	We found evidence that because eligibility requirements for the WIA youth summer program changed, EDD has established slightly modified eligibility controls and procedures for Recovery Act WIA youth summer funds.	◆	According to its accounting chief, EDD has not issued any new eligibility guidelines for Recovery Act funding since eligibility determination is based on existing guidelines for WIA funds. Although we requested documentation supporting this assertion, EDD was unable to provide such support.
Corrective action plan processes are in place to promptly resolve any audit findings identified that may impact the department's ability to successfully implement the Recovery Act.	◆	EDD has existing corrective action processes in place. However, during our fiscal year 2007–08 Single Audit of the WIA program, we noted one instance where EDD did not issue a management decision on audit findings within six months of the State's receipt of OMB Circular A-133 audit reports, as required by that circular. Part of the delay can be attributed to the State Controller's Office (State Controller), which receives the audit reports first and did not submit the report to EDD until more than two and one-half months after it was received. Because a management decision was not complete within the required time frame, EDD cannot ensure that entities receiving federal funds corrected weaknesses in a timely manner. Consequently, entities may continue to be out of compliance with federal requirements.	◆	EDD has existing corrective action processes in place. However, during our fiscal year 2007–08 Single Audit of the WIA program, we noted one instance where EDD did not issue a management decision on audit findings within six months of the State's receipt of OMB Circular A-133 audit reports, as required by that circular. Part of the delay can be attributed to the State Controller, which receives the audit reports first and did not submit the report to EDD until more than two and one-half months after it was received. Because a management decision was not complete within the required time frame, EDD cannot ensure that entities receiving federal funds corrected weaknesses in a timely manner. Consequently, entities may continue to be out of compliance with federal requirements.	◆	EDD has existing corrective action processes in place. However, during our fiscal year 2007–08 Single Audit of the WIA program, we noted one instance where EDD did not issue a management decision on audit findings within six months of the State's receipt of OMB Circular A-133 audit reports, as required by that circular. Part of the delay can be attributed to the State Controller, which receives the audit reports first and did not submit the report to EDD until more than two and one-half months after it was received. Because a management decision was not complete within the required timeframe, EDD cannot ensure that entities receiving federal funds corrected weaknesses in a timely manner. Consequently, entities may continue to be out of compliance with federal requirements.
New requirements, conditions, and guidance have been provided to the subrecipients regarding Recovery Act funds.	■	EDD has provided guidance to local workforce investment boards, but according to a budget and administration manager, EDD is still waiting for guidance from DOL regarding Recovery Act Section 1512 reporting requirements.	■	EDD has provided guidance to local workforce investment boards, but according to a budget and administration manager, EDD is still waiting for guidance from DOL regarding Recovery Act Section 1512 reporting requirements.	■	EDD has provided guidance to local workforce investment boards, but according to a budget and administration manager, EDD is still waiting for guidance from DOL regarding Recovery Act Section 1512 reporting requirements.

AREA OF PROGRAM RISK	WORKFORCE INVESTMENT ACT—ADULT WORK SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.258		WORKFORCE INVESTMENT ACT—YOUTH SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.259		WORKFORCE INVESTMENT ACT—DISLOCATED WORKERS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.260	
Acquisition/Contracts						
New requests for proposals issued under Recovery Act initiatives contain the necessary language to satisfy the provisions of the Recovery Act.	■	According to a manager in the budget and administration group, EDD plans on adding new information regarding the Recovery Act to its solicitations for proposal, but EDD has not yet issued any such solicitations.	✗	Although EDD added language to its solicitations for proposal referring to the Recovery Act, the language provided no specifics about the provisions of the Recovery Act.	■	According to a manager in the budget and administration group, EDD plans on adding new information regarding the Recovery Act to its solicitations for proposal; however, EDD has not yet issued any such solicitations.
Contracts using Recovery Act funds are awarded in a prompt, fair, and reasonable manner.	◆	EDD awards contracts under WIA pursuant to 29 U.S.C. Section 2932 (Public Law 105-220 – Workforce Investment Act Section 182), which requires prompt allocation of funds and the use of the most recent available data for funds distribution. EDD has already awarded contracts funded with Recovery Act funds pursuant to this law to local workforce investment boards; however, according to a budget and administration manager, no contracts have yet been awarded pursuant to the governor's 15 percent discretionary WIA funds.	◆	EDD awards contracts under WIA pursuant to 29 U.S.C. Section 2932 (Public Law 105-220 – Workforce Investment Act Section 182), which requires prompt allocation of funds and the use of the most recent available data for funds distribution. EDD has already awarded contracts funded with Recovery Act funds pursuant to this law to local workforce investment boards; however, according to a budget and administration manager, no contracts have yet been awarded pursuant to the governor's 15 percent discretionary WIA funds.	◆	EDD awards contracts under WIA pursuant to 29 U.S.C. Section 2932 (Public Law 105-220 – Workforce Investment Act Section 182), which requires prompt allocation of funds and the use of the most recent available data for funds distribution. EDD has already awarded contracts funded with Recovery Act funds pursuant to this law to local workforce investment boards; however, according to a budget and administration manager, no contracts have yet been awarded pursuant to the governor's 15 percent discretionary WIA funds.
New contracts awarded using Recovery Act funds have the specific terms and clauses required.	✓	Although EDD did not amend contracts that are set to expire on June 30, 2009, to include Recovery Act language, it provided us with copies of contracts effective July 1, 2009, which do include Recovery Act specific clauses.	✓	Although EDD did not amend contracts that are set to expire on June 30, 2009, to include Recovery Act language, it provided us with copies of contracts effective July 1, 2009, which do include Recovery Act specific clauses.	✓	Although EDD did not amend contracts that are set to expire on June 30, 2009, to include Recovery Act language, it provided us with copies of contracts effective July 1, 2009, which do include Recovery Act specific clauses.
Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.	■	According to a manager in the budget and administration group, while EDD is trying to avoid delays in funding Recovery Act projects, it is experiencing difficulties obtaining spending authority in order to efficiently move appropriated money to local agencies. Although we requested documentation supporting this assertion, EDD was unable to provide such support.	■	According to a manager in the budget and administration group, while EDD is trying to avoid delays in funding Recovery Act projects, it is experiencing difficulties obtaining spending authority in order to efficiently move appropriated money to local agencies. Although we requested documentation supporting this assertion, EDD was unable to provide such support.	■	According to a manager in the budget and administration group, while EDD is trying to avoid delays in funding Recovery Act projects, it is experiencing difficulties obtaining spending authority in order to efficiently move appropriated money to local agencies. Although we requested documentation supporting this assertion, EDD was unable to provide such support.

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AREA OF PROGRAM RISK	WORKFORCE INVESTMENT ACT—ADULT WORK SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.258		WORKFORCE INVESTMENT ACT—YOUTH SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.259		WORKFORCE INVESTMENT ACT—DISLOCATED WORKERS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.260	
Contracts awarded using Recovery Act funds are transparent to the public.	◆	According to a manager in the budget and administration group, EDD provides details of contracts to be awarded and announced through the solicitation for proposal process, which applies to only 15 percent of the WIA funding, on its Recovery Web site. The manager also noted that EDD would provide the same information to the California Federal Economic Stimulus Task Force (Task Force) for inclusion on the California Economic Recovery Portal Web site, if requested. However, EDD does not currently publish contracts given by formula to local workforce investment boards on its Web site despite the fact that these contracts comprise the vast majority of WIA funding.	◆	According to a manager in the budget and administration group, EDD provides details of contracts to be awarded and announced through the solicitation for proposal process, which applies to only 15 percent of the WIA funding, on its Recovery Web site. The manager also noted that EDD would provide the same information to the Task Force for inclusion on the state California Economic Recovery Portal Web site, if requested. However, EDD does not currently publish contracts given by formula to local workforce investment boards on its Web site despite the fact that these contracts comprise the vast majority of WIA funding.	◆	According to a manager in the budget and administration group, EDD provides details of contracts to be awarded and announced through the solicitation for proposal process, which applies to only 15 percent of the WIA funding, on its Recovery Web site. The manager also noted that EDD would provide the same information to the Task Force for inclusion on the California Economic Recovery Portal Web site, if requested. However, EDD does not currently publish contracts given by formula to local workforce investment boards on its Web site despite the fact that these contracts comprise the vast majority of WIA funding.
The public benefits of Recovery Act funds used under contract are reported clearly, accurately, and in a timely manner.	✓	EDD places descriptions of programs funded under the Recovery Act on its own Recovery Act Web site, located at www.edd.ca.gov/recovery.	✓	EDD places descriptions of programs funded under the Recovery Act on its own Recovery Act Web site, located at www.edd.ca.gov/recovery.	✓	EDD places descriptions of programs funded under the Recovery Act on its own Recovery Act Web site, located at www.edd.ca.gov/recovery.
Transparency and Accountability						
A governance body has been established to manage the overall implementation of the Recovery Act.	◆	According to EDD's accounting chief, EDD has created a managerial working group to oversee implementation of the Recovery Act. EDD provided us with a listing of department contacts and program experts who participate in its Recovery Act working group; however, EDD was unable to provide any formal documentation of the group's membership or oversight responsibilities.	◆	According to EDD's accounting chief, EDD has created a managerial working group to oversee implementation of the Recovery Act. EDD provided us with a listing of department contacts and program experts who participate in its Recovery Act working group; however, EDD was unable to provide any formal documentation of the group's membership or oversight responsibilities.	◆	According to EDD's accounting chief, EDD has created a managerial working group to oversee implementation of the Recovery Act. EDD provided us with a listing of department contacts and program experts who participate in its Recovery Act working group; however, EDD was unable to provide any formal documentation of the group's membership or oversight responsibilities.

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The appropriate standard data elements that must be captured, classified, and aggregated for analysis and reporting to meet Recovery Act requirements under Section 1512 are identified.	■	EDD can currently collect required financial data relating to Recovery Act funds as evidenced by two dry-run financial reports that were submitted to and accepted by the DOL. According to a manager in the budget and administration group, EDD is still awaiting guidance for Recovery Act Section 1512 reporting requirements related to job creation from the federal government. While this manager states that it has requested this guidance, EDD was unable to provide any documentation to confirm this.	■	EDD can currently collect required financial data relating to Recovery Act funds as evidenced by two dry-run financial reports that were submitted to and accepted by the DOL. According to a manager in the budget and administration group, EDD is still awaiting guidance for Recovery Act Section 1512 reporting requirements related to job creation from the federal government. While this manager states that it has requested this guidance, EDD was unable to provide any documentation to confirm this.	■	EDD can currently collect required financial data relating to Recovery Act funds as evidenced by two dry-run financial reports that were submitted to and accepted by the DOL. According to a manager in the budget and administration group, EDD is still awaiting guidance for Recovery Act Section 1512 reporting requirements related to job creation from the federal government. While this manager states that it has requested this guidance, EDD was unable to provide any documentation to confirm this.
Reporting mechanisms are in place to collect the required data from subrecipients to meet the Recovery Act's transparency provisions.	■	EDD can currently collect required financial data relating to Recovery Act funds, as evidenced by two dry-run financial reports that were submitted to and accept by the DOL. According to a manager in the budget and administration group, it is still awaiting guidance for Recovery Act Section 1512 reporting requirements related to job creation from the federal government. While this manager states that it has requested this guidance, EDD was unable to provide any documentation to confirm this.	■	EDD can currently collect required financial data relating to Recovery Act funds, as evidenced by two dry-run financial reports that were submitted to and accept by the DOL. According to a manager in the budget and administration group, it is still awaiting guidance for Recovery Act Section 1512 reporting requirements related to job creation from the federal government. While this manager states that it has requested this guidance, EDD was unable to provide any documentation to confirm this.	■	EDD can currently collect required financial data relating to Recovery Act funds, as evidenced by two dry-run financial reports that were submitted to and accept by the DOL. According to a manager in the budget and administration group, it is still awaiting guidance for Recovery Act Section 1512 reporting requirements related to job creation from the federal government. While this manager states that it has requested this guidance, EDD was unable to provide any documentation to confirm this.
Reports published under the Recovery Act are reviewed and approved for accuracy and completeness (internal controls related to reporting).	◆	According to a manager in the budget and administration group, a staff services manager I or II currently reviews and approves all required reports. Although we requested documentation supporting this assertion, EDD was unable to provide such support. However, we tested a reporting-based internal control deficiency included in our Single Audit covering fiscal year 2007–08 to see if corrective action was taken, and in the one instance we tested, found that data on the federal report agreed with supporting documentation.	◆	According to a manager in the budget and administration group, a staff services manager I or II currently reviews and approves all required reports. Although we requested documentation supporting this assertion, EDD was unable to provide such support. However, we tested a reporting-based internal control deficiency included in our Single Audit covering fiscal year 2007–08 to see if corrective action was taken, and in the one instance we tested, found that data on the federal report agreed with supporting documentation.	◆	According to a manager in the budget and administration group, a staff services manager I or II currently reviews and approves all required reports. Although we requested documentation supporting this assertion, EDD was unable to provide such support. However, we tested a reporting-based internal control deficiency included in our Single Audit covering fiscal year 2007–08 to see if corrective action was taken, and in the one instance we tested, found that data on the federal report agreed with supporting documentation.

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AREA OF PROGRAM RISK	WORKFORCE INVESTMENT ACT—ADULT WORK SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.258		WORKFORCE INVESTMENT ACT—YOUTH SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.259		WORKFORCE INVESTMENT ACT—DISLOCATED WORKERS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.260	
Reports are prepared on a timely basis.	☐	The deputy director of the program review branch at EDD states that EDD will be able to meet the Recovery Act's Section 1512 financial reporting requirements within 10 days of the calendar quarter using "soft" data. "Soft" financial data is estimated data. However, EDD is basing this assertion on guidance it received from DOL in which DOL states that the focus of the guidance is DOL's normal financial reports, not reporting under Section 1512 of the Recovery Act. Additionally, DOL makes it clear throughout the document that the U.S. Office of Management and Budget (OMB) is responsible for developing Recovery Act reporting guidelines, and that DOL is currently awaiting guidance from OMB. Furthermore, prior to receiving this guidance, EDD stated that its cost accounting system could not meet the deadlines for reporting under the Recovery Act because current state financial systems are configured to meet prior federal reporting guidelines for reporting 45 days after the end of a quarter. Finally, EDD is uncertain as to the specific performance reporting requirements under Section 1512 and is currently awaiting guidance from the federal government. Therefore, the ability to report on these requirements on a timely basis is unknown. Although a manager in the budget and administration group stated that EDD has contacted the federal government for further guidance, EDD was unable to provide documentation to confirm this.	☐	The deputy director of the program review branch at EDD states that EDD will be able to meet the Recovery Act's Section 1512 financial reporting requirements within 10 days of the calendar quarter using "soft" data. "Soft" financial data is estimated data. However, EDD is basing this assertion on guidance it received from DOL in which DOL states that the focus of the guidance is DOL's normal financial reports, not reporting under Section 1512 of the Recovery Act. Additionally, DOL makes it clear throughout the document that the OMB is responsible for developing Recovery Act reporting guidelines, and that DOL is currently awaiting guidance from OMB. Furthermore, prior to receiving this guidance, EDD stated that its cost accounting system could not meet the deadlines for reporting under the Recovery Act because current state financial systems are configured to meet prior federal reporting guidelines for reporting 45 days after the end of a quarter. Finally, EDD is uncertain as to the specific performance reporting requirements under Section 1512 and is currently awaiting guidance from the federal government. Therefore, the ability to report on these requirements on a timely basis is unknown. Although a manager in the budget and administration group stated that EDD has contacted the federal government for further guidance, EDD was unable to provide documentation to confirm this.	☐	The deputy director of the program review branch at EDD states that EDD will be able to meet the Recovery Act's Section 1512 financial reporting requirements within 10 days of the calendar quarter using "soft" data. "Soft" financial data is estimated data. However, EDD is basing this assertion on guidance it received from DOL in which DOL states that the focus of the guidance is DOL's normal financial reports, not reporting under Section 1512 of the Recovery Act. Additionally, DOL makes it clear throughout the document that the OMB is responsible for developing Recovery Act reporting guidelines, and that DOL is currently awaiting guidance from OMB. Furthermore, prior to receiving this guidance, EDD stated that its cost accounting system could not meet the deadlines for reporting under the Recovery Act because current state financial systems are configured to meet prior federal reporting guidelines for reporting 45 days after the end of a quarter. Finally, EDD is uncertain as to the specific performance reporting requirements under Section 1512 and is currently awaiting guidance from the federal government. Therefore, the ability to report on these requirements on a timely basis is unknown. Although a manager in the budget and administration group stated that EDD has contacted the federal government for further guidance, EDD was unable to provide documentation to confirm this.

AREA OF PROGRAM RISK	WORKFORCE INVESTMENT ACT—ADULT WORK SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.258		WORKFORCE INVESTMENT ACT—YOUTH SERVICES CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.259		WORKFORCE INVESTMENT ACT—DISLOCATED WORKERS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.260	
The department regularly monitors subrecipient compliance with federal program requirements (internal controls related to subrecipient monitoring).	▢	EDD staff provided us documentation showing that it conducted three on-site reviews of CBOs during fiscal year 2008–09. However, we identified an internal control weakness in our most recent Single Audit covering fiscal year 2007–08 regarding subrecipient monitoring of community-based organizations (CBOs) funded under WIA. Specifically, none of the CBOs that received federal WIA funding in fiscal year 2007–08 received on-site reviews by EDD. In total, 38 CBOs received $83.5 million in federal WIA funds during fiscal year 2007–08. Furthermore, since the State Recovery Portal shows that EDD will receive an estimated $415.3 million in Recovery Act funds for the WIA program in fiscal year 2008–09 alone, it is likely that the CBOs will receive even more money in future years. Therefore, it will be even more critical that EDD perform on-site reviews. Currently, EDD has redirected one full-time auditor position to the compliance monitoring section and plans to redirect three additional employees to the section no later than July 1, 2009. The purpose of redirecting these staff is to assist in the monitoring of subrecipients of WIA funds. Finally, the deputy director stated that EDD has requested budget and position authority to hire an additional eleven analysts, two managers, and one support staff to assist with the compliance monitoring reviews.	▢	EDD staff provided us documentation showing that it conducted three on-site reviews of CBOs during fiscal year 2008-09. However, we identified an internal control weakness in our most recent Single Audit covering fiscal year 2007–08 regarding subrecipient monitoring of community-based organizations (CBOs) funded under WIA. Specifically, none of the CBOs that received federal WIA funding in fiscal year 2007–08 received on-site reviews by EDD. In total, 38 CBOs received $83.5 million in federal WIA funds during fiscal year 2007–08. Furthermore, since the State Recovery Portal shows that EDD will receive an estimated $415.3 million in Recovery Act funds for the WIA program in fiscal year 2008–09 alone, it is likely that the CBOs will receive even more money in future years. Therefore, it will be even more critical that EDD perform on-site reviews. Currently, EDD has redirected one full-time auditor position to the compliance monitoring section and plans to redirect three additional employees to the section no later than July 1, 2009. The purpose of redirecting these staff is to assist in the monitoring of subrecipients of WIA funds. Finally, the deputy director stated that EDD has requested budget and position authority to hire an additional eleven analysts, two managers, and one support staff to assist with the compliance monitoring reviews.	▢	EDD staff provided us documentation showing that it conducted three on-site reviews of CBOs during fiscal year 2008–09. However, we identified an internal control weakness in our most recent Single Audit covering fiscal year 2007–08 regarding subrecipient monitoring of community-based organizations (CBOs) funded under WIA. Specifically, none of the CBOs that received federal WIA funding in fiscal year 2007–08 received on-site reviews by EDD. In total, 38 CBOs received $83.5 million in federal WIA funds during fiscal year 2007–08. Furthermore, since the State Recovery Portal shows that EDD will receive an estimated $415.3 million in Recovery Act funds for the WIA program in fiscal year 2008–09 alone, it is likely that the CBOs will receive even more money in future years. Therefore, it will be even more critical that EDD perform on-site reviews. Currently, EDD has redirected one full-time auditor position to the compliance monitoring section and plans to redirect three additional employees to the section no later than July 1, 2009. The purpose of redirecting these staff is to assist in the monitoring of subrecipients of WIA funds. Finally, the deputy director stated that EDD has requested budget and position authority to hire an additional eleven analysts, two managers, and one support staff to assist with the compliance monitoring reviews.

Sources: Interviews of key EDD personnel, review of relevant documents pertaining to processes and procedures EDD already had in use, and has developed or will be developing for implementing provisions of the Recovery Act.

Note: For detailed descriptions of the legend refer to pages 46 and 47.

NA = Not applicable.

✓ = Prepared.

◆ = Mostly prepared.

▢ = Moderately prepared.

✗ = Not prepared.

Table A.3.2
The Employment Development Department's Preparedness to Administer the American Recovery and Reinvestment Act of 2009 Funds for Programs for Which It Expects to Receive or Be Awarded $50 Million or More for Fiscal Year 2008–09

AREA OF PROGRAM RISK		INCREASE IN UNEMPLOYMENT COMPENSATION BENEFITS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.225		UNEMPLOYMENT INSURANCE – EXTENSION OF EMERGENCY UNEMPLOYMENT COMPENSATION CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.225
Overall Preparedness				
Overall preparedness to track, monitor, and report on American Recovery and Reinvestment Act of 2009 (Recovery Act) funds and to comply with the Recovery Act's provisions.		Based on the most frequent occurrence of the color symbols below, the Employment Development Department (EDD) appears mostly prepared to implement the provisions of the Recovery Act for the Increase in Unemployment Compensation Benefits.		Based on the most frequent occurrence of the color symbols below, EDD appears mostly prepared to implement the provisions of the Recovery Act for the Unemployment Insurance—Extension of Emergency Unemployment Compensation (EUC).
Human Capital				
A sufficient level of personnel exists to manage the programs included in the Recovery Act.		According to the fund management administrator, the Recovery Act simply increased the amount of unemployment benefits to recipients of unemployment checks by $25 per week for this program. EDD does not believe the increase in benefits will result in the need for additional staff. Additionally, according to the deputy director of EDD's program review branch, because of the significant increase in unemployment claims, EDD already hired additional staff in August 2008 to manage the increased workload. Based on our review of the Recovery Act, we agree that the need for additional staff is unlikely.		According to the fund management administrator, the Recovery Act extends the current EUC program end date from March 31, 2009 to December 31, 2009. Therefore, he does not believe that an increase in staff will be required. Based on our review of the Recovery Act, we agree that the need for additional staff is unlikely. Additionally, according to the deputy director of EDD's program review branch, EDD already hired additional staff in August 2008 to manage the increased workload.
Staff is adequately trained to effectively implement the Recovery Act's provisons.		The deputy director of EDD's program review branch stated that no new training is required because Recovery Act funds for this program are simply extensions of the existing program. However, although this may be the case, there are other Recovery Act provisions that impose additional requirements on the program. Further although we saw evidence that EDD's staff is being trained and information is continuously being disseminated as it becomes available, we could not confirm that such training will be adequate to effectively implement Recovery Act provisions.		The deputy director of EDD's program review branch stated that no new training is required because Recovery Act funds for this program are simply extensions of the existing program. However, although this may be the case, there are other Recovery Act provisions that impose additional requirements on the program. Further, although we saw evidence that EDD's staff is being trained and information is continuously being disseminated as it becomes available, we could not confirm that such training will be adequate to effectively implement Recovery Act provisions.
Financial and Operational Systems				
Recovery Act funds are clearly distinguishable (for example, distinguished by using separate accounts).		We confirmed that EDD has prepared separate grant codes to account for Recovery Act funds.		Although we confirmed that EDD has prepared separate grant codes to account for Recovery Act funds, according to the chief of the program analysis and evaluation section, additional system programming is still needed to ensure that Recovery Act and other federal funds are recorded in the correct grant code. This programming is expected to be complete by June 30, 2009.

FEDERAL FUNDING FOR EXTENDED UNEMPLOYMENT CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER UNKNOWN*		STATE UNEMPLOYMENT INSURANCE & EMPLOYMENT SERVICE OPERATIONS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBERS 17.225 AND 17.207†	
◆	Based on the most frequent occurrence of the color symbols below, EDD appears mostly prepared to implement the provisions of the Recovery Act for Federal Funding for Extended Unemployment.	◆	Based on the most frequent occurrence of the color symbols below, EDD appears moderately prepared to implement the provisions of the Recovery Act for State Unemployment Insurance and Employment Service Operations.
✓	According to the fund management administrator, similar to the Unemployment Insurance EUC program, this program extends the length of time a person can receive unemployment benefits. The fund management administrator does not believe that the extension of benefits will result in the need for additional staff. Based on our review of the Recovery Act, we agree that the need for additional staff is unlikely. Additionally, according to the deputy director of EDD's program review branch, EDD had already hired additional staff in August 2008 to manage the increased workload.	◆	Although the chief of fiscal services indicated that EDD has a sufficient level of personnel to properly administer funding for this program, EDD informed us that it plans on using the funds to upgrade its information technology system for State Unemployment Insurance operations. Staff further stated that EDD plans to hire 4 to 6 new staff to manage these upgrade projects. Based on its acknowledgement that it plans to hire more staff, we conclude that EDD does not currently have sufficient staff for this program.
◆	The deputy director of EDD's program review branch stated that no new training is required because Recovery Act funds for this program are simply extensions of the existing program. However, although this may be the case, there are other Recovery Act provisions that impose additional requirements on the program. Further, although we saw evidence that EDD's staff is being trained and information is continuously being disseminated as it becomes available, we could not confirm that such training will be adequate to effectively implement Recovery Act provisions.	NA	The deputy director of EDD's program review branch stated that if EDD hires contract managers to implement upgrades of existing systems with these funds, there would be no need to train them. Although we believe that some level of training will be required if new contract managers are eventually hired, because EDD has not yet entered into a contract to upgrade its existing systems, additional training is not needed at this time.
✓	We confirmed that EDD has prepared separate grant codes to account for Recovery Act funds.	✓	We have confirmed that EDD has prepared an accounting ID to separately account for these funds.

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AREA OF PROGRAM RISK	INCREASE IN UNEMPLOYMENT COMPENSATION BENEFITS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.225		UNEMPLOYMENT INSURANCE – EXTENSION OF EMERGENCY UNEMPLOYMENT COMPENSATION CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.225	
Financial and operational systems are configured to manage and control Recovery Act funds.	✓	According to a manager for the analysis and support group, EDD completed the programming needed to manage and control Recovery Act funds. This statement was supported by the fact that EDD provided us with Recovery Act fiscal data for this program.	■	According to a fund management administrator at EDD, accounting programming needed to distinguish payments from the EUC account and federal treasury general fund is not in place at this time. As a result, it is not possible to isolate Recovery Act Unemployment Insurance financial activity from other federal financial activity. This programming is expected to be complete by June 30, 2009.
Financial and operational systems support the increase in volume of contracts, grants, and loans.	NA	There are no contracts, grants, or loans allowed under this program.	NA	There are no contracts, grants, or loans allowed under this program.
Fraud, Waste, and Abuse				
Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are minimized and mitigated (internal controls related to activities allowed and allowable costs).	◆	According to the chief of the program analysis and evaluation section, EDD will use existing internal controls to ensure appropriate use of funds. However, we have not audited this program since fiscal year 2005–06. Therefore, we cannot confirm that EDD's existing controls will be effective as they relate to Recovery Act funds.	◆	According to the chief of the program analysis and evaluation section, EDD will use existing internal controls to ensure appropriate use of funds. However, we have not audited this program since fiscal year 2005–06. Therefore, we cannot confirm that EDD's existing controls will be effective as they relate to Recovery Act funds.
Policies and Processes				
Specific Recovery Act requirements are incorporated into department policies.	◆	According to the chief of accounting, EDD is developing specific department policies to include Recovery Act provisions.	◆	According to the chief of accounting, EDD is developing specific department policies to include Recovery Act provisions.
Written departmental policies provide the following procedures: (1) requesting cash advances as close as is administratively possible to actual cash outlays; (2 monitoring of cash management activities; and (3) repayment of excess interest earnings when required (internal controls related to cash management).	◆	According to the chief of accounting, EDD will use existing cash management processes to ensure proper cash drawdown of Recovery Act funds. We also obtained copies of EDD's written cash management procedures. However, we have not audited this program since fiscal year 2005-06. Therefore, we cannot attest to the effectiveness of these processes.	◆	According to the chief of accounting, EDD will use existing cash management processes to ensure proper cash drawdown of Recovery Act funds. We also obtained copies of EDD's written cash management procedures. However, we have not audited this program since fiscal year 2005-06. Therefore, we cannot attest to the effectiveness of these processes.
Written policies and procedures have been established to provide direction for making and documenting eligibility determinations for Recovery Act fund grants (internal controls related to eligibility).	✓	EDD has modified its unemployment insurance (UI) eligibility profile to include the extra payment allowed under the Recovery Act.	✓	EDD has modified its UI eligibility profile to include extended claim periods as allowed under the Recovery Act.
Corrective action plan processes are in place to promptly resolve any audit findings identified that may impact the department's ability to successfully implement the Recovery Act.	◆	EDD has existing corrective action processes in place. This program was not included in our Single Audit covering fiscal year 2007-08 but will be included in our Single Audit covering fiscal year 2008–09.	◆	EDD has existing corrective action processes in place. This program was not included in our Single Audit covering fiscal year 2007-08 but will be included in our Single Audit covering fiscal year 2008–09.
New requirements, conditions, and guidance have been provided to the subrecipients regarding Recovery Act funds.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no subrecipients for this program.	NA	According to the chief of the program analysis and section, EDD makes payments directly to individuals. Therefore, there are no subrecipients for this program.

FEDERAL FUNDING FOR EXTENDED UNEMPLOYMENT CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER UNKNOWN*		STATE UNEMPLOYMENT INSURANCE & EMPLOYMENT SERVICE OPERATIONS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBERS 17.225 AND 17.207†	
✓	According to a manager for the analysis and support group, the programming to file and pay Federal funding for extended unemployment (Fed-Ed) claims was completed in May 2009. The accounting programming needed to make the distinction between Recovery Act and other federal funds has also been completed. EDD provided us with Recovery Act fiscal data for this program to confirm that the programming had been completed.	◆	According to the accounting chief of EDD, existing financial and operational systems are configured to manage and control Recovery Act funds. Although we requested documentation supporting this assertion, EDD was unable to provide such support.
NA	There are no contracts, grants, or loans allowed under this program.	✓	According to the chief of accounting, EDD only plans to issue one contract to upgrade its existing UI financial and operational systems. Because there will be only one new contract, we conclude that EDD's financial and operational systems can effectively support the increase in contract volume under the Recovery Act.
◆	According to the section chief of the program analysis and evaluation section, EDD will use existing internal controls to ensure appropriate use of funds. However, we have not audited this program since the Single Audit covering fiscal year 2005–06. Therefore, we cannot confirm that EDD's existing controls will be effective as they relate to Recovery Act funds.	◆	According to the chief of accounting, EDD will use existing internal controls to ensure fraud, waste, and abuse do not occur with these additional UI funds. However, we have not audited this program since fiscal year 2005–06. Therefore, we cannot confirm that EDD's existing controls will be effective as they relate to Recovery Act funds.
◆	According to the chief of accounting, EDD is developing specific department policies to include Recovery Act provisions.	◆	According to the chief of accounting, EDD is developing specific department policies to include Recovery Act provisions.
◆	According to the chief of accounting, EDD will use existing cash management processes to ensure proper cash drawdown of Recovery Act funds. We also obtained copies of EDD's written cash management procedures. However, we have not audited this program since fiscal year 2005–06. Therefore, we cannot attest to the effectiveness of these processes.	◆	According to the chief of accounting, EDD will use existing cash management processes to ensure proper cash drawdown of Recovery Act funds. However, we have not audited this program since fiscal year 2005–06. Therefore, we cannot attest to the effectiveness of these processes.
✓	EDD has modified its UI eligibility profile to include extended claim parameters as allowed under the Recovery Act.	NA	These funds are to be used for UI administration only. As a result, there are no applicable eligibility procedures.
◆	EDD has existing corrective action processes in place. This program was not included in our Single Audit covering fiscal year 2007–08, but will be included in our Single Audit covering fiscal year 2008–09.	◆	EDD has existing corrective action processes in place. This program was not included in our Single Audit covering fiscal year 2007–08 but will be included in our Single Audit covering fiscal year 2008–09.
NA	According to the section chief of the program analysis and evaluation section, EDD makes payments directly to individuals, so there are no subrecipients for this program.	NA	These funds are to be used for UI administration only. As a result, there is no applicable guidance to give to subrecipients.

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AREA OF PROGRAM RISK	INCREASE IN UNEMPLOYMENT COMPENSATION BENEFITS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.225		UNEMPLOYMENT INSURANCE – EXTENSION OF EMERGENCY UNEMPLOYMENT COMPENSATION CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.225	
Acquisition/Contracts				
New requests for proposals issued under Recovery Act initiatives contain the necessary language to satisfy the provisions of the Recovery Act.	NA	According to the chief of the program analysis and evaluation section, EDD makes UI benefit payments directly to individuals. As a result, there are no requests for proposal for this program.	NA	According to the chief of the program analysis and evaluation section, EDD makes UI benefit payments directly to individuals. As a result, there are no requests for proposal for this program.
Contracts using Recovery Act funds are awarded in a prompt, fair, and reasonable manner.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no contracts for this program.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no contracts for this program.
New contracts awarded using Recovery Act funds have the specific terms and clauses required.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no contracts for this program.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no contracts for this program.
Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no projects for this program.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no projects for this program.
Contracts awarded using Recovery Act funds are transparent to the public.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no contracts for this program.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no contracts for this program.
The public benefits of Recovery Act funds used under contract are reported clearly, accurately, and in a timely manner.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no contracts for this program.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. As a result, there are no contracts for this program.
Transparency and Accountability				
A governance body has been established to manage the overall implementation of the Recovery Act.	◆	According to its accounting chief, EDD has created a managerial working group to oversee implementation of the Recovery Act. EDD provided us with a list of department contacts and program experts who participate in its Recovery Act working group; however, EDD was unable to provide any formal documentation of the group's membership or oversight responsibilities.	◆	According to its accounting chief, EDD has created a managerial working group to oversee implementation of the Recovery Act. EDD provided us with a list of department contacts and program experts who participate in its Recovery Act working group; however, EDD was unable to provide any formal documentation of the group's membership or oversight responsibilities.
The appropriate standard data elements that must be captured, classified, and aggregated for analysis and reporting to meet Recovery Act requirements under Section 1512 are identified.	■	According to a manager of the analysis and support group, EDD believes that the appropriate standard data elements, as identified in Federal Register Vol. 74, No. 61, do not pertain to UI programs. The California Federal Economic Stimulus Task Force (Task Force) has asked for, but has yet to receive federal guidance on whether the department must meet the Recovery Act Section 1512 reporting requirements.	■	According to a manager of the analysis and support group, EDD believes that the appropriate standard data elements, as identified in Federal Register Vol. 74, No. 61, do not pertain to UI programs. The Task Force has asked for, but has yet to receive federal guidance on whether the department must meet the Recovery Act Section 1512 reporting requirements.
Reporting mechanisms are in place to collect the required data from subrecipients to meet the Recovery Act's transparency provisions.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no subrecipients for this program.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no subrecipients for this program.

FEDERAL FUNDING FOR EXTENDED UNEMPLOYMENT CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER UNKNOWN*		STATE UNEMPLOYMENT INSURANCE & EMPLOYMENT SERVICE OPERATIONS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBERS 17.225 AND 17.207†	
NA	According to the chief of the program analysis and evaluation section, EDD makes UI benefit payments directly to individuals. Therefore, there are no requests for proposal for this program.	■	Because EDD has not yet issued any requests for proposal for this program, it is unknown whether any Recovery Act language will be included. However, EDD has requested budget authority and plans to issue requests for proposal to complete updates to its unemployment insurance information technology systems.
NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no contracts for this program.	■	Although EDD plans to issue at least one contract for this program, it has not yet done so.
NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no contracts for this program.	■	Although EDD plans to issue at least one contract for this program, it has not yet done so.
NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no projects for this program.	■	Although EDD plans to issue at least one contract for this program, it has not yet done so.
NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no contracts for this program.	■	Although EDD plans to issue at least one contract for this program, it has not yet done so.
NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no contracts for this program.	■	Although EDD plans to issue at least one contract for this program, it has not yet done so.
◆	According to its accounting chief, EDD has created a managerial working group to oversee implementation of the Recovery Act. EDD provided us with a list of department contacts and program experts who participate in its Recovery Act working group; however, EDD was unable to provide any formal documentation of the group's membership or oversight responsibilities.	◆	According to its accounting chief, EDD has created a managerial working group to oversee implementation of the Recovery Act. EDD provided us with a list of department contacts and program experts who participate in its Recovery Act working group; however, EDD was unable to provide any formal documentation of the group's membership or oversight responsibilities.
■	According to a manager of the analysis and support group, EDD believes that the appropriate standard data elements, as identified in Federal Register Vol. 74, No. 61, do not pertain to UI programs. The Task Force has asked for, but has yet to receive federal guidance on whether the department must meet the Recovery Act Section 1512 reporting requirements.	✕	Although the federal government issued a letter providing guidance for the use of these funds, it did not include Recovery Act Section 1512 reporting requirement guidance. EDD's chief of accounting acknowledged that it has not received any guidance specific to Recovery Act Section 1512 reporting requirements, nor has EDD asked for Recovery Act Section 1512 reporting requirements.
NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no subrecipients for this program.	NA	According to the accounting chief at EDD, there are no subrecipients for this program because the funds are only allowed for UI administrative costs.

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AREA OF PROGRAM RISK	INCREASE IN UNEMPLOYMENT COMPENSATION BENEFITS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.225		UNEMPLOYMENT INSURANCE – EXTENSION OF EMERGENCY UNEMPLOYMENT COMPENSATION CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 17.225	
Reports published under the Recovery Act are reviewed and approved for accuracy and completeness (internal controls related to reporting).		According to a manager in the budget and administration group, a staff services manager I or II currently reviews and approves all required reports. Although we requested documentation supporting this assertion, EDD was unable to provide such support. However, we have not audited this program this program since the Single Audit covering fiscal year 2005–06. Therefore, we cannot confirm whether such controls are adequate.		According to a manager in the budget and administration group, a staff services manager I or II currently reviews and approves all required reports. Although we requested documentation supporting this assertion, EDD was unable to provide such support. However, we have not audited this program this program since the Single Audit covering fiscal year 2005–06. Therefore, we cannot confirm whether such controls are adequate.
Reports are prepared on a timely basis.		The deputy director of the program review branch at EDD states that it will be able to meet the Recovery Act's Section 1512 financial reporting requirements within 10 days of the end of the calendar quarter using "soft" data. "Soft" financial data is estimated data. However, EDD is basing this assertion on guidance it received from the U.S. Department of Labor (DOL) in which DOL states that the focus of the guidance is DOL's normal financial reports, not reporting under Section 1512 of the Recovery Act. Additionally, DOL makes it clear throughout the document that the U.S. Office of Management and Budget (OMB) is responsible for developing Recovery Act reporting guidelines, and that DOL is currently awaiting guidance from OMB. Furthermore, prior to receiving this guidance, EDD stated that its cost accounting system could not meet the deadlines for reporting under the Recovery Act because current state financial systems are configured to meet prior federal reporting guidelines for reporting 45 days after the end of a quarter. Finally, EDD is uncertain as to the specific performance reporting requirements under Section 1512 and is currently awaiting guidance from the federal government. Therefore, the ability to report on these requirements on a timely basis is unknown. Although a manager in the budget and administration group stated that EDD has contacted the federal government for further guidance, EDD was unable to provide documentation to confirm this.		The deputy director of the program review branch at EDD states that it will be able to meet the Recovery Act's Section 1512 financial reporting requirements within 10 days of the end of the calendar quarter using "soft" data. "Soft" financial data is estimated data. However, EDD is basing this assertion on guidance it received from DOL in which DOL states that the focus of the guidance is DOL's normal financial reports, not reporting under Section 1512 of the Recovery Act. Additionally, DOL makes it clear throughout the document that the OMB is responsible for developing Recovery Act reporting guidelines, and that DOL is currently awaiting guidance from OMB. Furthermore, prior to receiving this guidance, EDD stated that its cost accounting system could not meet the deadlines for reporting under the Recovery Act because current state financial systems are configured to meet prior federal reporting guidelines for reporting 45 days after the end of a quarter. Finally, EDD is uncertain as to the specific performance reporting requirements under Section 1512 and is currently awaiting guidance from the federal government. Therefore, the ability to report on these requirements on a timely basis is unknown. Although a manager in the budget and administration group stated that EDD has contacted the federal government for further guidance, EDD was unable to provide documentation to confirm this.
The department regularly monitors subrecipient compliance with federal program requirements (internal controls related to subrecipient monitoring).	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no subrecipients for this program.	NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no subrecipients for this program.

FEDERAL FUNDING FOR EXTENDED UNEMPLOYMENT CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER UNKNOWN*		STATE UNEMPLOYMENT INSURANCE & EMPLOYMENT SERVICE OPERATIONS CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBERS 17.225 AND 17.207†	
◆	According to a manager in the budget and administration group, a staff services manager I or II currently reviews and approves all required reports. Although we requested documentation supporting this assertion, EDD was unable to provide such support. However, we have not audited this program since the Single Audit covering fiscal year 2005–06. Therefore, we cannot confirm whether such controls are adequate.	◆	According to the accounting chief of EDD, the programs section and the accounting section of fiscal programs division reviews reports. Although we requested documentation supporting this assertion, EDD was unable to provide such support. However, we have not audited this program since the Single Audit covering fiscal year 2005–06. Therefore, we cannot confirm whether such controls are adequate.
■	The deputy director of the program review branch at EDD states that it will be able to meet the Recovery Act's Section 1512 financial reporting requirements within 10 days of the calendar quarter using "soft" data. "Soft" financial data is estimated data. However, EDD is basing this assertion on guidance it received from DOL in which DOL states that the focus of the guidance is DOL's normal financial reports, not reporting under Section 1512 of the Recovery Act. Additionally, DOL makes it clear throughout the document that the OMB is responsible for developing Recovery Act reporting guidelines, and that DOL is currently awaiting guidance from OMB. Furthermore, prior to receiving this guidance, EDD stated that its cost accounting system could not meet the deadlines for reporting under the Recovery Act because current state financial systems are configured to meet prior federal reporting guidelines for reporting 45 days after the end of a quarter. Finally, EDD is uncertain as to the specific performance reporting requirements under Section 1512 and is currently awaiting guidance from the federal government. Therefore, the ability to report on these requirements on a timely basis is unknown. Although a manager in the budget and administration group stated that EDD has contacted the federal government for further guidance, EDD was unable to provide documentation to confirm this.	■	The deputy director of the program review branch at EDD states that it will be able to meet the Recovery Act's Section 1512 financial reporting requirements within 10 days of the calendar quarter using "soft" data. "Soft" financial data is estimated data. However, EDD is basing this assertion on guidance it received from DOL in which DOL states that the focus of the guidance is DOL's normal financial reports, not reporting under Section 1512 of the Recovery Act. Additionally, DOL makes it clear throughout the document that the OMB is responsible for developing Recovery Act reporting guidelines, and that DOL is currently awaiting guidance from OMB. Furthermore, prior to receiving this guidance, EDD stated that its cost accounting system could not meet the deadlines for reporting under the Recovery Act because current state financial systems are configured to meet prior federal reporting guidelines for reporting 45 days after the end of a quarter. Finally, EDD is uncertain as to the specific performance reporting requirements under Section 1512 and is currently awaiting guidance from the federal government. Therefore, the ability to report on these requirements on a timely basis is unknown. Although a manager in the budget and administration group stated that EDD has contacted the federal government for further guidance, EDD was unable to provide documentation to confirm this.
NA	According to the chief of the program analysis and evaluation section, EDD makes payments directly to individuals. Therefore, there are no subrecipients for this program.	NA	These funds are only allowed for UI administrative costs. Also, according to the accounting chief at EDD, this requirement does not apply because there are no subrecipients for this program.

Sources: Interviews of key Employment Development Department (EDD) personnel and review of relevant documents pertaining to processes and procedures EDD already had in use, and has developed or will be developing for implementing provisions of the American Recovery and Reinvestment Act of 2009.

Note: For detailed descriptions of the legend refer to pages 46 and 47.

NA = Not applicable.

✓ = Prepared.

◆ = Mostly prepared.

■ = Moderately prepared.

✗ = Not prepared.

* EDD believes this program will be funded through Catalog of Federal Domestic Assistance Number 17.225, but notes that the federal government has not confirmed this number.

† As noted in Table 6 on page 33, EDD plans to use the entire $59.9 million under this federal program to update its unemployment insurance information technology systems.

Table A.4

The Department of Social Services' Preparedness to Administer the American Recovery and Reinvestment Act of 2009 Funds for Programs for Which It Expects to Receive or Be Awarded $50 Million or More in Fiscal Year 2008–09

	INCREASE IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) BENEFITS (FOOD STAMPS PROGRAM)		ASSISTANCE FOR VULNERABLE INDIVIDUALS—EMERGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM (TANF CONTINGENCY FUND)	
AREA OF PROGRAM RISK	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 10.551		CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.714	
Overall Preparedness				
Overall preparedness to track, monitor, and report on American Recovery and Reinvestment Act of 2009 (Recovery Act) funds and to comply with the Recovery Act's provisions.		Based on the most frequent occurrence of the color symbols below, the Department of Social Services (Social Services) appears mostly prepared to implement the provisions of the Recovery Act for the Supplemental Nutrition Assistance Program (SNAP) benefits.		Based on the most frequent occurrence of the color symbols below, Social Services appears moderately prepared to implement the provisions of the Recovery Act for the Emergency Fund for Temporary Assistance for Needy Families (TANF) program (TANF Contingency Fund).
Human Capital				
A sufficient level of personnel exists to manage the programs included in the Recovery Act.		Social Services believes that it has a sufficient level of personnel to manage this program. According to the chief of the food stamp policy bureau, Social Services did not conduct a formal job analysis to determine if current staffing levels were sufficient to manage the Recovery Act SNAP benefit increase. Instead, the chief of the food stamp policy bureau stated that based on written direction from the Food and Nutrition Service (FNS), a part of the U.S. Department of Agriculture, Social Services determined that it would implement the increase in the same manner as the annual cost-of-living adjustments that it routinely makes.		Social Services provided us with conflicting information regarding whether it had a sufficient level of personnel to manage the Recovery Act TANF Contingency Fund. Specifically, Social Services stated that it had a sufficient level of staff to manage the TANF Contingency Fund under the Recovery Act. However, according to the chief of Social Services' employment and eligibility branch, the chief deputy director verbally authorized the TANF program to hire one additional staff member to work with TANF staff. However, in May 2009, Social Services instituted a department-wide hiring freeze. Social Services was unable to provide documentation supporting its assertion regarding the adequacy of its staffing levels. The chief of the employment and eligibility branch told us that Social Services did not perform an analysis to determine if current staffing levels would be sufficient.

AREA OF PROGRAM RISK	INCREASE IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) BENEFITS (FOOD STAMPS PROGRAM) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 10.551		ASSISTANCE FOR VULNERABLE INDIVIDUALS—EMERGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM (TANF CONTINGENCY FUND) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.714	
Staff is adequately trained to effectively implement the Recovery Act's provisions.		Social Services believes that staff is adequately trained to effectively implement Recovery Act provisions. According to the chief of Social Services' food stamp policy bureau, the SNAP benefit increases under the Recovery Act are increases to an existing system, and existing staff training is sufficient. He also stated that Social Services' staff will use existing systems, procedures, and policies to implement the Recovery Act's provisions that minimize the need for training or any additional staff. He further told us that the Recovery Act's provisions coincide with existing provisions for the programs in which staff have already been trained. The chief of the food stamp policy bureau stated that based on written guidance from Food and Nutrition Service (FNS), Social Services determined that it would implement the increase in the same manner as annual cost-of-living adjustments that it routinely makes. We obtained copies of the written guidance.		The chief of Social Services' employment and eligibility branch believes that Social Services' staff is adequately trained to effectively implement the Recovery Act's provisions. According to the chief of Social Services' employment and eligibility branch, based on a review of the Recovery Act and the program instructions received from the Administration for Children and Families (ACF), a part of the U.S. Department of Health and Human Services (HHS), Social Services determined that the TANF Contingency Fund provisions coincide with the existing TANF provisions in which staff have already been trained. According to the chief of the employment and eligibility branch, there is no written documentation of these discussions with ACF.
Financial and Operational Systems				
Recovery Act funds are clearly distinguishable (for example, distinguished by using separate accounts).		According to an e-mail from an FNS staff member to the manager of Social Services' federal reporting section, rather than place the burden on states to have two or more sets of accounting records, FNS decided to determine a percentage rate to apply to daily drawdowns of program funds to segregate regular and Recovery Act benefits. In other words, Social Services would simply apply a percentage to the total SNAP benefits to calculate the amount of SNAP benefits under the Recovery Act.		Social Services is in the process of implementing separate accounts to distinguish Recovery Act funds. Social Services responded that it has set up separate codes for the basic assistance portion of the TANF Contingency Fund under the Recovery Act. The department provided us with the form it submitted to the State Controller's Office (State Controller) to request a new federal trust fund account to track receipts with the State Controller for the TANF Contingency Fund. Social Services also created separate accounts to track expenditures for the TANF Contingency Fund. However, for the work subsidy and nonrecurring portions of the TANF Contingency Fund, Social Services told us that it is still in the process of setting up the separate account codes.

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AREA OF PROGRAM RISK	INCREASE IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) BENEFITS (FOOD STAMPS PROGRAM) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 10.551		ASSISTANCE FOR VULNERABLE INDIVIDUALS—EMERGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM (TANF CONTINGENCY FUND) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.714	
Financial and operational systems are configured to manage and control Recovery Act funds.	◆	As previously noted, according to an e-mail from an FNS staff member to the manager of Social Services' federal reporting section, rather than place the burden on states to have two or more sets of accounting records, FNS decided to determine a percentage rate to apply to daily drawdowns of program funds to segregate regular and Recovery Act benefits. Further, regarding operational systems, the chief of the food stamp branch told us that counties determine eligibility and issue benefits that the federal government pays directly to beneficiaries. In a letter dated February 27, 2009, to county welfare directors, food stamp coordinators, and others, Social Services provided implementation instructions regarding the provisions of the Recovery Act's temporary increase in SNAP benefits. Also, according to the manger of the Office of Systems Integration (OSI), Statewide Automated Welfare System consortia management unit, OSI provides oversight for the consortia automation systems for SNAP and acts as the liaison between Social Services and the county consortium systems for SNAP benefits. The manager stated that OSI received verbal confirmation from the county consortia that the stimulus increase would be implemented effective April 1, 2009. In addition, according to a Social Services' staff services manager in the food stamp program, it is her understanding at this point that California's SNAP beneficiaries have received the Recovery Act's benefit increase.	■	Social Services believes that its financial and operational systems can manage and control Recovery Act funds. Social Services stated that it plans to modify existing systems to manage and control Recovery Act funds. Specifically, Social Services responded that it received verbal guidance from the U.S. Department of Health and Human Services regarding online financial reporting, and that the TANF Contingency Fund will have its own column in the standard TANF reporting documents to allow Recovery Act funds to remain separate and easily distinguishable. However, as of June 1, 2009, Social Services did not know the activation date for the online form. Further, regarding operational systems, according to the chief of the employment and eligibility branch, Social Services will use its existing operational systems to administer Recovery Act funds. Social Services determined that existing operational systems are sufficient, based on its reading of the Recovery Act and program instructions issued by the ACF. According to the chief of the employment and eligibility branch, Social Services has requested further guidance from the ACF regarding Recovery Act funds, but those conversations have been through conference calls with ACF. Social Services stated there is no written documentation of these discussions with ACF.
Financial and operational systems support the increase in volume of contracts, grants, and loans.	NA	According to the chief of Social Services' food stamp branch, there are no contracts, grants, or loans associated with the SNAP benefit program. She also stated that the county welfare departments determine eligibility and issue benefits and that the federal government makes payments directly to SNAP beneficiaries.	NA	According to the chief of its employment and eligibility branch, Social Services does not anticipate awarding contracts, grants, and loans with Recovery Act funds for the basic assistance and nonrecurring portions of the TANF Contingency Fund. Regarding the work subsidy portion, Social Services provided a copy of the one contract it asserts it has in place for the TANF Contingency Fund. This contract is with the Chancellor's Office of the California Community Colleges to reimburse it for costs of education services provided to participants in the California Work Opportunity and Responsibility to Kids (CalWORKS) program. According to Social Services, once the requirements for the work subsidy portion of the TANF Contingency Fund have been finalized, Social Services will amend the contract to include provisions of the Recovery Act.

AREA OF PROGRAM RISK	INCREASE IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) BENEFITS (FOOD STAMPS PROGRAM) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 10.551		ASSISTANCE FOR VULNERABLE INDIVIDUALS—EMERGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM (TANF CONTINGENCY FUND) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.714	
Fraud, Waste, and Abuse				
Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are minimized and mitigated (internal controls related to activities allowed and allowable costs).		According to the chief of the food stamp policy bureau, Social Services will use existing internal controls to oversee Recovery Act funds. This will include using existing controls for allowable activities, allowable costs, and subrecipient monitoring. The chief of the food stamp policy bureau stated that based on written guidance from FNS, Social Services determined that it would implement the SNAP benefit increase in the same manner as the annual cost-of-living adjustments it routinely makes. Further, an email dated April 20, 2009, from a staff services manager within Social Services' food stamp program to FNS shows that Social Services has contacted the federal government to obtain clarification regarding how it should manage over-issuance claims. On May 20, 2009, Social Services received a response from FNS. According to the chief of the food stamp policy bureau, the department plans on issuing a clarifying letter to counties. We have not audited this program since the Single Audit covering fiscal year 2005–06, therefore we cannot confirm whether such controls are adequate. The SNAP program is subject to our Single Audit covering fiscal year 2008–09.		The chief of its employment and eligibility branch stated that Social Services will use its existing internal controls, including allowable activities, allowable costs, and subrecipient monitoring, to administer the TANF Contingency Fund based on its review of the Recovery Act and written program instructions from the ACF. However, during our review of the TANF program for the Single Audit covering fiscal year 2007–08, we reported an internal control weakness regarding activities allowed. In that report, we stated that Social Services directed counties to file claims for TANF program funds electronically without providing detailed supporting documentation, and that it did not conduct any on-site visits of the counties to review the supporting documentation for their claims. Consequently, we could not conclude that Social Services is in compliance with the TANF program provisions that include fiscal control and accounting procedures sufficient to trace funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Social Services stated that it did not concur with our conclusion when the Single Audit was published. According to Social Services, our determination was based on an incomplete review of the process it used, and our discussion does not correctly represent the rationale used by Social Services in stopping the counties from submitting supporting documentation with their assistance claims. According to the chief of its employment and eligibility branch, Social Services still does not concur that this is a control weakness. In our comments on Social Services' view, we detailed again that its control processes for ensuring its compliance with allowed activities and allowable costs provisions for *during-the-award* monitoring are insufficient, and that Social Services did not provide us with copies of documentation supporting its assertion that our conclusion was incorrect.

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AREA OF PROGRAM RISK	INCREASE IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) BENEFITS (FOOD STAMPS PROGRAM) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 10.551		ASSISTANCE FOR VULNERABLE INDIVIDUALS—EMERGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM (TANF CONTINGENCY FUND) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.714	
Policies and Processes				
Specific Recovery Act requirements are incorporated into department policies.	◆	Social Services incorporated some Recovery Act provisions into department policies. On February 23, 2009, it received an implementation memorandum from FNS describing those SNAP provisions of the Recovery Act that must be implemented on April 1, 2009, and other provisions to be implemented after April 1, 2009. In response, Social Services issued a letter dated February 27, 2009, to county welfare directors, food stamp coordinators, and others to provide implementation instructions regarding the provisions of the Recovery Act that affected the SNAP benefit program. On May 20, 2009, Social Services received clarification from FNS regarding SNAP benefit over-issuance claims. According to the chief of the food stamp policy bureau, Social Services anticipates issuing another letter to county welfare directors, food stamp coordinators, and others regarding the proper calculation methods.	■	Social Services anticipates using existing department policies and procedures but is seeking further clarification from its federal agency regarding any additional Recovery Act provisions. The chief of its employment and eligibility branch stated that Social Services will use its existing internal controls, including allowable activities, allowable costs, and subrecipient monitoring, to administer the TANF Contingency Fund based on review of the Recovery Act and written program instructions from the ACF. Further, the chief of the employment and eligibility branch told us that Social Services had requested further information from ACF regarding any additional Recovery Act provisions that will need to be incorporated in the future. As of May 19, 2009, the department had not received further guidance.
Written departmental policies provide the following procedures: (1) requesting cash advances as close as is administratively possible to actual cash outlays; (2) monitoring of cash management activities; and (3) repayment of excess interest earnings when required (internal controls related to cash management).	◆	According to the chief of Social Services' food stamp policy bureau, based on review of the Recovery Act's language, written guidance from FNS (such as the implementation memo dated February 23, 2009, and the clarification memo dated March 5, 2009), and conversations with FNS staff, the food stamp branch will continue to use its current cash management procedures. We have not audited this program since our Single Audit covering fiscal year 2005–06, therefore we cannot confirm whether such controls are adequate. The SNAP program is subject to our Single Audit covering fiscal year 2008–09.	✓	Social Services stated that it has a well-documented process in place that conforms to the federal Cash Management Improvement Act. Social Services also stated that it will use this same process for funds under the Recovery Act. In our Single Audit report covering fiscal year 2007-08, we did not identify any cash management internal control weaknesses for the TANF program.
Written policies and procedures have been established to provide direction for making and documenting eligibility determinations for Recovery Act fund grants (internal controls related to eligibility).	◆	Social Services provided directions for making and documenting eligibility determinations for Recovery Act funds. It received written direction from FNS regarding applicable eligibility changes associated with the Recovery Act. Social Services also received subsequent clarification from FNS regarding eligibility standards. In a letter dated February 27, 2009, to county welfare directors, food stamp coordinators, and others, Social Services provided implementation instructions regarding the provisions of the Recovery Act's temporary increase in SNAP benefits. The notification included eligibility changes associated with the Recovery Act. We have not audited this program since our Single Audit covering fiscal year 2005–06, therefore we cannot confirm whether such controls are adequate. The SNAP program is subject to our Single Audit covering fiscal year 2008–09.	■	According to the chief of Social Services' employment and eligibility branch, Social Services is currently maintaining the same procedures for determining eligibility. The chief of the employment and eligibility branch also stated that Social Services reached the determination that the current eligibility procedures were sufficient based on its reading of the Recovery Act and the program instructions received from ACF. Finally, the chief of the employment and eligibility branch stated that Social Services has requested further information from ACF via phone calls on any proposed changes to eligibility provisions or documentation. Social Services told us that proposals for the work subsidy and nonrecurring portions of the TANF Contingency Fund have not been finalized. Social Services stated that when those portions have been awarded and federal guidance is released, it will release updated guidance to its subrecipients.

AREA OF PROGRAM RISK	INCREASE IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) BENEFITS (FOOD STAMPS PROGRAM) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 10.551		ASSISTANCE FOR VULNERABLE INDIVIDUALS—EMERGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM (TANF CONTINGENCY FUND) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.714	
Corrective action plan processes are in place to promptly resolve any audit findings identified that may impact the department's ability to successfully implement the Recovery Act.		Social Services does not believe that new corrective action plan procedures are needed and that the existing process is appropriate for funds under the Recovery Act. Specifically, the chief of the food stamp policy bureau stated that based on review of the Recovery Act and informational and instruction memorandums from the federal government, Social Services will continue to use existing corrective action plan procedures. We have not audited this program since our Single Audit covering fiscal year 2005–06, therefore we cannot confirm whether such controls are adequate. The SNAP program is subject to our Single Audit covering fiscal year 2008–09.		According to the chief of the employment and eligibility branch, Social Services will use its existing corrective action plan processes for the TANF Contingency Fund. Social Services based its determination on a review of the Recovery Act and the program instructions provided by ACF. According to the chief of the employment and eligibility branch, there is no formal written analysis supporting Social Services' determination. Nevertheless, during the Single Audit covering fiscal year 2007-08, we identified three internal control weaknesses. Social Services has taken no corrective action for two and is in the process of correcting the third.
New requirements, conditions, and guidance have been provided to the subrecipients regarding Recovery Act funds.		Social Services provided some written guidance to counties. In a letter dated February 27, 2009, to county welfare directors, food stamp coordinators, and others, Social Services provided implementation instructions regarding the provisions of the Recovery Act's temporary increase in SNAP benefits. Social Services also provided these individuals with an information notice dated April 30, 2009, to assist them in raising awareness of increased food stamp benefits among beneficiaries. On May 20, 2009, Social Services received clarification from FNS regarding SNAP benefits over issuance claims. According to the chief of the food stamp policy bureau, Social Services anticipates issuing another letter to county welfare directors, food stamp coordinators, and others regarding the proper calculation methods.		Social Services responded to our questionnaire that it has received preliminary guidance from the ACF for the "Basic Assistance" portion for the TANF Contingency Fund. It also stated that subrecipients have not received guidance because its existing policies, procedures, and data collection tools are sufficient. Social Services also stated that the proposals for the work subsidy and nonrecurring portions of the TANF Contingency Fund have not been finalized. Further, according to Social Services, when those portions have been awarded and federal guidance is released, it will issue updated guidance to its subrecipients.
Acquisition/Contracts				
New requests for proposals issued under Recovery Act initiatives contain the necessary language to satisfy the provisions of the Recovery Act.	NA	For the SNAP benefit program, according to the chief of the food stamp branch, Social Services does not anticipate issuing requests for proposals under the Recovery Act. County welfare departments determine eligibility and issue federally funded benefits that the federal government pays directly.	NA	According to the chief of Social Services' employment and eligibility branch, Social Services does not anticipate issuing requests for proposals with Recovery Act funds for the TANF Contingency Fund.
Contracts using Recovery Act funds are awarded in a prompt, fair, and reasonable manner.	NA	For the SNAP benefit program, according to the chief of the food stamp branch, Social Services does not anticipate issuing contracts under the Recovery Act. County welfare departments determine eligibility and issue federally funded benefits that the federal government pays directly.	NA	According to Social Services, it does not anticipate awarding contracts, grants, or loans with Recovery Act funds for the TANF Contingency Fund.

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AREA OF PROGRAM RISK	INCREASE IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) BENEFITS (FOOD STAMPS PROGRAM) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 10.551		ASSISTANCE FOR VULNERABLE INDIVIDUALS—EMERGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM (TANF CONTINGENCY FUND) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.714	
New contracts awarded using Recovery Act funds have the specific terms and clauses required.	NA	For the SNAP benefit program, according to the chief of the food stamp branch, Social Services does not anticipate issuing contracts under the Recovery Act. County welfare departments determine eligibility and issue federally funded benefits that the federal government pays directly.	■	According to Social Services, it does not anticipate awarding contracts, grants, or loans with Recovery Act funds for the basic assistance and nonrecurring portions of the TANF Contingency Fund. Regarding the work subsidy portion, Social Services provided a copy of the one contract it has in place for the TANF Contingency Fund. This contract is with the Chancellor's Office of the California Community Colleges to reimburse it for costs of educational services provided to participants in the CalWORKS program. According to Social Services, once the proposal for the work subsidy portion of the TANF Contingency Fund has been finalized, Social Services will amend the contract to include Recovery Act provisions.
Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.	NA	For the SNAP benefit program, according to the chief of the food stamp branch, Social Services does not anticipate funding projects under the Recovery Act. County welfare departments determine eligibility and issue federally funded benefits that the federal government pays directly.	NA	According to Social Services, it does not anticipate funding projects with Recovery Act funds for the TANF Contingency Fund.
Contracts awarded using Recovery Act funds are transparent to the public.	NA	For the SNAP benefit program, according to the chief of the food stamp branch, Social Services does not anticipate issuing contracts under the Recovery Act. County welfare departments determine eligibility and issue federally funded benefits that the federal government pays directly.	NA	According to Social Services, it does not anticipate awarding contracts, grants, or loans with Recovery Act funds for the TANF Contingency Fund.
The public benefits of Recovery Act funds used under contract are reported clearly, accurately, and in a timely manner.	NA	For the SNAP benefit program, according to the chief of the food stamp branch, Social Services does not anticipate issuing contracts under the Recovery Act. County welfare departments determine eligibility and issue federally funded benefits that the federal government pays directly.	NA	According to Social Services, it does not anticipate awarding contracts, grants, or loans with Recovery Act funds for the TANF Contingency Fund.

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Transparency and Accountability				
A governance body has been established to manage the overall implementation of the Recovery Act.		Social Services states that it has established a governance body to manage the overall implementation of the Recovery Act. According to its lead audits coordinator, Social Services set up a work group to manage the issues associated with the programs included under the Recovery Act. This work group includes employees who represent various divisions at Social Services. These individuals are the point of contact for their respective branch or division regarding Recovery Act funds. This group is not formal and does not meet regularly. Rather, whenever Recovery Act issues arise, members of the work group are informed of the issues, and the members address the aspects of the issues their respective branch or division is responsible for. Although we requested agendas or meeting notes related to this work group, the lead audits coordinator told us that there have been no formal meetings or notes to share. According to Social Services' deputy director for administration, he participates in weekly informal meetings with the California Health and Human Services Agency (CHHSA) representative on the California Federal Economic Stimulus Task Force (Task Force). The deputy director also stated that these weekly update meetings include other state agencies that report to CHHSA and provide an opportunity to disseminate and discuss Recovery Act-related information and topics that either may affect CHHSA departments or are of general interest to the group.		Social Services states that it has established a governance body to manage the overall implementation of the Recovery Act. According to its lead audits coordinator, Social Services set up a work group to manage the issues associated with the programs included in the Recovery Act. This work group includes employees that represent various divisions at Social Services. These individuals are the point of contact for their respective branch or division regarding Recovery Act funds. This group is not formal and does not meet regularly. Rather, whenever Recovery Act issues arise, members of the workgroup are informed of the issues, and the members address the aspects of the issues their respective branch or division is responsible for. Although we requested agendas or meeting notes related to this work group, the lead audits coordinator told us that there have been no formal meetings or notes to share. According to Social Services' deputy director for administration, he participates in weekly informal meetings with the CHHSA representative on the Task Force. The deputy director also stated that these weekly update meetings include other state agencies that report to CHHSA and provide an opportunity to disseminate and discuss Recovery Act-related information and topics that either may affect CHHSA departments or are of general interest to the group.

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The appropriate standard data elements that must be captured, classified, and aggregated for analysis and reporting to meet Recovery Act requirements under Section 1512 are identified.	✓	On May 19, 2009, the manager of Social Services' federal reporting section sent an e-mail to FNS requesting clarification about whether current reporting mechanisms will need to be updated to meet Recovery Act requirements. On June 12, 2009, Social Services received confirmation from the federal government that states are not required to submit modified FNS-46 reports for the Recovery Act. Further, Recovery Act funds will be tracked through a process in which the federal government will determine a percentage rate to apply to daily drawdowns of program funds to segregate regular and Recovery Act benefits.	NA	According to a senior assistant chief counsel at Social Services, Section 1512 of the Recovery Act does not require Social Services to create a report for the Recovery Act funding provided to the TANF Contingency Fund. Further, according to the assistant branch manager for Social Services' estimates bureau, the U.S. Office of Management and Budget (OMB) verbally agreed with Social Services' interpretation that the TANF Contingency Fund is not subject to reporting under Section 1512 of the Recovery Act. Additionally, on June 9, 2009, a representative of the ACF confirmed that the TANF Contingency Fund is not subject to the Section 1512 reporting requirements. Although the Section 1512 reporting requirements do not apply to the TANF Contingency Fund, the ACF representative added that the OMB might have additional requirements. Social Services told us that in light of the response from ACF, it believes it has received authoritative federal guidance that the TANF Contingency Fund is not subject to Recovery Act Section 1512 reporting requirements.
Reporting mechanisms are in place to collect the required data from subrecipients to meet the Recovery Act's transparency provisions.	✓	On May 19, 2009, the manager of Social Services' federal reporting section sent an e-mail to FNS requesting clarification about whether current reporting mechanisms will need to be updated to meet Recovery Act requirements. On June 12, 2009, Social Services received confirmation from the federal government that states are not required to submit modified FNS-46 reports for the Recovery Act. Further, Recovery Act funds will be tracked through a process in which the federal government will determine a percentage rate to apply to daily drawdowns of program funds to segregate regular and Recovery Act benefits.	NA	According to a senior assistant chief counsel at Social Services, Section 1512 of the Recovery Act does not require Social Services to create a report for the Recovery Act funding provided to the TANF Contingency Fund. Further, according to the assistant branch manager for Social Services' estimates bureau, the OMB verbally agreed with Social Services' interpretation that the TANF Contingency Fund is not subject to reporting under Section 1512 of the Recovery Act. Additionally, on June 9, 2009, a representative of the ACF confirmed that the TANF Contingency Fund is not subject to the Section 1512 reporting requirements. Although the Section 1512 reporting requirements do not apply to the TANF Contingency Fund, the ACF representative added that the OMB might have additional requirements. Social Services told us that in light of the response from ACF, it believes it has received authoritative federal guidance that the TANF Contingency Fund is not subject to Recovery Act Section 1512 reporting requirements.

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Reports published under the Recovery Act are reviewed and approved for accuracy and completeness (internal controls related to reporting).		According to the chief of its fiscal and accounting branch, Social Services has not issued any Recovery Act reports to date, and existing procedures for review and approval will be used for Recovery Act reporting. On June 12, 2009, Social Services received confirmation from the federal government that states are not required to submit modified FNS-46 reports for the Recovery Act. Further, Recovery Act funds will be tracked through a process in which the federal government will determine a percentage rate to apply to daily drawdowns of program funds to segregate regular and Recovery Act benefits We have not audited this program since our Single Audit covering fiscal year 2005–06, therefore we cannot confirm whether such controls are adequate. The SNAP program is subject to our Single Audit covering fiscal year 2008-09.	NA	According to a senior assistant chief counsel at Social Services, Section 1512 of the Recovery Act does not require Social Services to create a report for the Recovery Act funding provided to the TANF Contingency Fund. Further, according to the assistant branch manager for Social Services' estimates bureau, the OMB verbally agreed with Social Services interpretation that the TANF Contingency program is not subject to reporting under Section 1512 of the Recovery Act. Additionally, on June 9, 2009, a representative of the ACF confirmed that the TANF Contingency Fund program is not subject to the Section 1512 reporting requirements. Although the Section 1512 reporting requirements do not apply to the TANF Contingency Fund, the ACF representative added that the OMB might have additional requirements. Social Services told us that in light of the response from ACF, it believes it has received authoritative federal guidance that the TANF Contingency Fund is not subject to Recovery Act Section 1512 reporting requirements. In our Single Audit report covering fiscal year 2007-08, we did not identify any control weaknesses in the area of reporting for the TANF program.
Reports are prepared on a timely basis.		According to the chief of the fiscal and accounting branch, Social Services has not prepared any reports to date. On June 12, 2009, Social Services received confirmation from the federal government that states are not required to submit modified FNS-46 reports for the Recovery Act. Further, Recovery Act funds will be tracked through a process in which the federal government will determine a percentage rate to apply to daily drawdowns of program funds to segregate regular and Recovery Act benefits	NA	According to a senior assistant chief counsel at Social Services, Section 1512 of the Recovery Act does not require Social Services to create a report for the Recovery Act funding provided to the TANF Contingency Fund. Further, according to the assistant branch manager for Social Services' estimates bureau, the OMB verbally agreed with Social Services interpretation that the TANF Contingency Fund is not subject to reporting under Section 1512 of the Recovery Act. Additionally, on June 9, 2009, a representative of the ACF confirmed that the TANF Contingency Fund is not subject to the Section 1512 reporting requirements. Although the Section 1512 reporting requirements do not apply to TANF Contingency Funds, the ACF representative added that the OMB might have additional requirements. Social Services told us that in light of the response from ACF, it believes it has received authoritative federal guidance that the TANF Contingency Fund is not subject to Recovery Act Section 1512 reporting requirements.

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AREA OF PROGRAM RISK	INCREASE IN THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) BENEFITS (FOOD STAMPS PROGRAM) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 10.551		ASSISTANCE FOR VULNERABLE INDIVIDUALS—EMERGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM (TANF CONTINGENCY FUND) CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER 93.714	
The department regularly monitors subrecipient compliance with federal program requirements (internal controls related to subrecipient monitoring).	◆	According to the chief of the food stamp policy bureau, Social Services will continue to use its current subrecipient monitoring procedures because Recovery Act SNAP benefits is not a new program but rather additional funding of a current SNAP program. He also stated that based on review of the Recovery Act's language, written guidance from FNS (such as the implementation memo dated February 23, 2009, and the clarification memo dated March 5, 2009) and conversations with FNS staff, the food stamp branch will continue to use its current subrecipient monitoring procedures. We have not audited since our Single Audit covering fiscal year 2005–06, therefore we cannot confirm whether such controls are adequate. The SNAP program is subject to our Single Audit covering fiscal year 2008–09.	■	According to the chief of the employment and eligibility branch, Social Services' current internal controls for monitoring subrecipients are sufficient. However, we reported two control weaknesses over subrecipient monitoring in our Single Audit report covering fiscal year 2007–08. Social Services has not yet fully corrected either weakness. Regarding our first finding, we found that Social Services did not identify federal award information, such as the Catalog of Federal Domestic Assistance (CFDA) title and number, when issuing subawards to the counties. Social Services stated that it will need to work with the federal granting agency regarding the requirements to notify subrecipients of the federal award information and relevant federal laws and regulations that govern the grant award. Social Services has partially resolved this finding by issuing a letter to the counties identifying the CFDA title and number. However, according to the lead audits coordinator, Social Services intends to have the corrective action plan completed for this finding by the end of December 2009. Regarding the second finding, we noted that Social Services lacks adequate policies and procedures to ensure that it issues management decisions on audit findings within the time frames required by OMB Circular A-133. The lead audits coordinator told us that Social Services also plans to have the corrective action plan for this finding completed by the end of December 2009.

Sources: Interviews of key Department of Social Services' (Social Services) personnel and review of relevant documents pertaining to processes and procedures Social Services already has in use and has developed or will be developing for implementing provisions of the Recovery Act.

Note: For detailed descriptions of the legend refer to pages 46 and 47.

NA = Not applicable.

✓ = Prepared.

◆ = Mostly prepared.

■ = Moderately prepared.

✗ = Not prepared.

Appendix B

STATUS OF ACTIONS STATE DEPARTMENTS HAVE TAKEN TO CORRECT INTERNAL CONTROL WEAKNESSES REPORTED IN THE SINGLE AUDIT COVERING FISCAL YEAR 2007–08

Table B provides a summary of the status of selected internal control weaknesses reported in our Single Audit report covering fiscal year 2007–08 for the four departments we assessed. Based on our limited analysis of corrective action taken by the departments for 30 internal control weaknesses we identified, it appears they corrected four of the previously reported weaknesses. For the other 26, we determined that the departments are still in the process of correcting 22 and have taken minimal or no action for the remaining four.

Table B
Status of Action State Departments Have Taken to Correct Selected Internal Control Weaknesses Reported In the Single Audit Covering Fiscal Year 2007–08

STATE DEPARTMENT/U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 COMPLIANCE REQUIREMENTS	TOTAL NUMBER OF CONTROL WEAKNESSES	STATUS OF CORRECTING CONTROL WEAKNESSES		
		CORRECTIVE ACTION TAKEN	CORRECTIVE ACTION IN PROCESS	MINIMAL OR NO CORRECTIVE ACTION TAKEN
Department of Education				
Cash management	5	2	1	2*
Reporting	1	0	1	0
Subrecipient monitoring	6	1	5	0
Subtotals	**12**	**3**	**7**	**2**
Department of Health Care Services				
Activities allowed and allowable costs	4	0	4	0
Eligibility	4†	0	4†	0
Reporting	1	0	1	0
Subrecipient monitoring	2	0	2	0
Subtotals	**11**	**0**	**11**	**0**
Employment Development Department				
Reporting	1	1	0	0
Subrecipient monitoring	3	0	3	0
Subtotals	**4**	**1**	**3**	**0**
Department of Social Services				
Activities allowed and allowable costs	1	0	0	1*
Subrecipient montoring	2	0	1	1
Subtotals	**3**	**0**	**1**	**2**
Totals	**30**	**4**	**22**	**4**

Source: Bureau of State Audits' *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2008* (May 2009, Report 2008-002); and the Bureau of State Audits' analysis of departments' corrective action.

* The department disagrees with the our conclusion regarding this control weakness.

† Although two of these weaknesses were identified during procedures performed over special tests and provisions for our Single Audit covering fiscal year 2007–08, we categorize them here under eligibility control weaknesses because they relate to provider eligibility.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press