United States Government Accountability Office

GAO

Report to the Congress

September 2010

RECOVERY ACT

Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds (California)

GAO

Accountability * Integrity * Reliability

GAO-10-1000SP

Appendix II: California

Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)[1] spending in California. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at http://www.gao.gov/recovery.

What We Did

This appendix is based on GAO's work in California and provides a general overview of (1) California's uses of Recovery Act funds for selected programs, (2) the steps California oversight entities are taking to ensure accountability for Recovery Act funds, and (3) the impacts that these funds have had on creating and retaining jobs. During the course of our work, we reviewed selected programs to assess how California recipients used funds. Table 1 provides a general description of the programs included in our review. For more details on these programs and their requirements, see appendix XVIII of GAO-10-1000SP.

Table 1: Description of Selected Recovery Act Programs

Recovery Act program	Selected Recovery Act program funding levels and program purposes
Edward Byrne Memorial Justice Assistance Grants (JAG)	• The Department of Justice awarded California a total of about $225 million in JAG Recovery Act funds. • JAG is a federal grant program to state and local governments for law enforcement and other criminal-justice activities, such as crime prevention and domestic violence programs, corrections, drug treatment, justice information-sharing initiatives, and victims' services.
Energy Efficiency and Conservation Block Grant (EECBG)	• The Department of Energy (DOE) allocated California about $406 million in Recovery Act EECBG formula grants directly to the state and local governments. • EECBG formula grants are intended for the development and implementation of projects to improve energy efficiency and reduce energy use and fossil fuel emissions.
Elementary and Secondary Education Act of 1965 (ESEA) Title I, Part A	• The Department of Education (Education) allocated approximately $1.1 billion in Recovery Act funding to California to support ESEA Title I, Part A, and has disbursed about $580.6 million of those funds as of August 6, 2010. • The purpose of the funds is to improve teaching and learning for at-risk students and at schools with high concentrations of families living in poverty.
Individuals with Disabilities Education Act (IDEA), Part B	• Education allocated about $1.3 billion in Recovery Act funding to California to support IDEA, Part B, and has disbursed about $621.5 million of those funds as of August 6, 2010. • IDEA, Part B, provides funds to ensure that preschool and school-aged children with disabilities have access to free and appropriate public education through grants to states.

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

Recovery Act program	Selected Recovery Act program funding levels and program purposes
State Energy Program (SEP)	• DOE distributed about $226 million in Recovery Act SEP funds to California to be spent over a 3-year period. • SEP provides funds through formula grants to achieve national energy goals, such as increasing energy efficiency and decreasing energy costs.
Weatherization Assistance Program	• DOE allocated approximately $186 million in Recovery Act weatherization funding to California to be spent over a 3-year period. • This program enables low-income families to reduce their utility bills by making long-term energy efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment.

Sources: GAO analysis of U.S. Departments of Education, Energy, and Justice data.

To determine how California used Recovery Act funds under selected programs, we met with officials from state agencies in charge of administering program funds. We also met with recipients of Recovery Act funds in three local jurisdictions—the City of Redding (Redding), the City of San José (San José), and the County of Sacramento (Sacramento)—to discuss their use of Energy Efficiency and Conservation Block Grant (EECBG) funds. For the two programs administered by Education—ESEA Title I, Part A, and IDEA, Part B—we met with five local educational agencies (LEA)—Los Angeles Unified School District, Moreno Valley Unified School District, Sacramento City Unified School District, San Bernardino City Unified School District, and Stockton Unified School District—to discuss their uses of Recovery Act funds and the impact or expected impacts of these funds. For the Weatherization Assistance Program, we selected four service providers to discuss and observe their Recovery Act weatherization programs: Community Action Partnership of Orange County, Maravilla Foundation, Project GO, Inc., and Self Help Home Improvement Project.

To assess the steps taken by California oversight entities to ensure accountability for Recovery Act funds, we interviewed officials from the California Recovery Task Force (Task Force), which was established by the Governor in March 2009 and has overarching responsibility for ensuring that the state's Recovery Act funds are spent efficiently and effectively and are tracked and reported in a transparent manner. We also met with California's Recovery Act Inspector General, the California State Auditor, and selected local auditors to obtain information or updates on their oversight and auditing activities. In addition, we reviewed products, such as guidance memorandums, letters, and reports, issued by these entities related to the Recovery Act.

To assess the effect Recovery Act funds have had on job creation and retention, we reviewed the information California recipients reported on www.recovery.gov (Recovery.gov). As required by the Recovery Act, recipients of Recovery Act funds must report quarterly on several measures, including estimates of the jobs created or retained using Recovery Act funds. To collect this information, the Office of Management and Budget (OMB) and the Recovery Accountability and Transparency Board created a nationwide data-collection system to obtain data from recipients, www.federalreporting.gov (FederalReporting.gov), and another site for the public to view and download recipient reports, Recovery.gov. In addition, we met with the Task Force to obtain current information on the state's experience in meeting Recovery Act reporting requirements and preparing the state's report for the quarter ending June 30, 2010. We continued to follow up with the California Department of Education (CDE) on issues we previously reported on related to estimating and reporting jobs.

What We Found

California recipients continue to use Recovery Act funds to create new programs and expand services under existing programs that are expected to provide long-term benefits. For example, localities we visited plan to use EECBG funds, which is a program funded for the first time by the Recovery Act, to help achieve energy efficiency goals, including reduced energy use, and other long-term benefits. As part of this program, Sacramento County spent about $531,000 in EECBG Recovery Act funds on energy efficiency improvements to a county facility that is expected to reduce operations and maintenance costs. Recovery Act funds also expanded existing federal programs, such as the State Energy Program (SEP), ESEA Title I, Part A, and IDEA, Part B. For instance, California was allocated $226 million in SEP Recovery Act funds, which is a significant increase from the state's fiscal year 2009 appropriation of $1.5 million. These funds allowed the state to develop several new activities and expand services, including allocating about $110 million of the $226 million to retrofit municipal, commercial, and residential buildings. In prior reports, we noted programs, such as the Weatherization Assistance Program and Edward Byrne Memorial Justice Assistance Grants (JAG), which received significant increases in funding through the Recovery Act, faced some implementation challenges, but recently overcame hurdles and are on track to meeting production and spending milestones. While Recovery Act funds have helped expand programs and services, California continues to face significant budgetary problems. State officials reported that Recovery Act funds will have less of an impact this fiscal year than they did last year because the state has largely distributed its State Fiscal Stabilization Fund (SFSF) funds and other one-time Recovery Act funds. As of August 19, 2010, California has not yet adopted a budget for state fiscal year 2010-2011, which began on July 1, and faces an estimated $19 billion budget gap.

Since the Recovery Act was enacted in February 2009, state and local audit and oversight entities we met with have continued to take steps to help ensure the accountability of Recovery Act funds. Our prior reports discussed the oversight roles and activities of key state entities, including the Task Force, the California Recovery Act Inspector General, and State Auditor. Since our last report in May 2010, these entities regularly met with state departments and agencies regarding Recovery Act funds, reviewed selected subrecipients to ensure proper accounting for funds received, and issued reports highlighting concerns about the management of Recovery Act funds. For example, on June 9, 2010, the State Auditor provided an update on the progress three state agencies made in responding to recommendations in reports issued over the last year and noted areas where additional work remained related to the management and oversight provided by these entities for three Recovery Act programs—JAG, SEP, and Weatherization Assistance Program. Local auditors we met with have generally not begun to conduct Recovery Act-specific audits, with the exception of the San José Auditors Office, which has issued two Recovery Act reports to date. Some local auditors stated that they plan to conduct Recovery Act-specific audits in the future, while others stated that staffing resources limited their ability to conduct additional audits at this time.

Overall, California recipients reported funding more than 83,000 full-time equivalents (FTE) with Recovery Act funds during the last recipient reporting cycle—the period covering April 1, 2010, to June 30, 2010—as reported on Recovery.gov on July 31, 2010. According to the Task Force, there were numerous new grants awarded and more Recovery Act funds expended during the fourth quarter reporting period compared to the prior quarter. Task Force officials also noted that this round of recipient reporting went more smoothly than prior rounds. During the reporting period, the Task Force took steps to ensure California recipients that do not directly report through the state's centralized system were accurately reporting FTEs. For instance, the Task Force contacted and provided guidance to recipients that did not report in the previous quarter to help them improve reporting in future quarters. CDE also took steps to address issues raised in our prior reports, including recipient reporting concerns about underreporting of vendor FTEs by its subrecipients and CDE's process for reviewing data.

California Is Gaining Long-Term Benefits from Recovery Act Funds for New and Expanding Programs, While Short-Term Budget Stabilization Benefits Are Waning

Local Governments Are Using Recovery Act Funds under a Newly Funded Program to Help Achieve Energy Goals

EECBG was funded for the first time by the Recovery Act and is intended to help localities achieve a variety of energy efficiency goals, such as reducing fossil fuel emissions and total energy use. DOE allocated about $356 million directly to 334 eligible[2] localities in California based on their residential and commuter populations. The state was also allocated approximately $49.6 million in EECBG Recovery Act funds, which are administered by the California Energy Commission (CEC) to largely be distributed to localities ineligible for EECBG direct formula funds.[3]

Officials from the three localities we met with that received direct formula EECBG allocations—Redding, Sacramento, and San José—told us that they plan to use EECBG funds to achieve long-term energy efficiency goals, including reduced energy use and increased use of renewable energy sources. For instance, San José plans to use EECBG funds to help the city make progress towards its energy goals to reduce the city's per capita energy use by 50 percent by 2022 and to receive 100 percent of its electricity from renewable energy sources, which are included in the city's 15-year plan for economic growth and environmental sustainability. Table

[2]Funding for EECBG direct formula grants to eligible units of local government—cities and counties—were allocated to cities with populations of at least 35,000 or that are among the top 10 highest populated cities of the state in which they are located; and to counties with a population of over 200,000 or that are among the 10 highest populated counties of the state in which they are located.

[3]States must pass on at least 60 percent of its allocation to localities ineligible for a direct formula grant. California intends to award approximately 67 percent of its allocation to such entities noncompetitively using a formula based on population and unemployment rates among other factors.

2 shows how the three localities we visited are planning to use these funds.

Table 2: EECBG Direct Recovery Act Funds Awarded and Expended, as of July 29, 2010, to Selected Localities and Examples of Planned Used

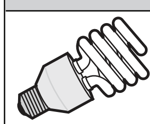
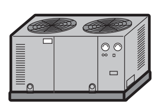
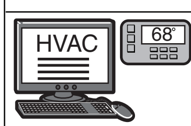
Locality	Amount awarded (dollars)	Amount expended (dollars)	Examples of planned uses
Redding	$892,700	$892,700	• Energy efficiency home retrofits, such as air sealing and Heating, Ventilation, and Air Conditioning (HVAC) installation for low-income residents
Sacramento	5.4 million	1.1 million	• Energy efficiency upgrades and retrofits for county facilities such as a park facility in an underserved community, a community center, and a correctional facility • For county owned and leased facilities, establish a revolving loan fund to finance (1) energy audits, which evaluate a building's energy use and can help target energy leaks or inefficiencies, (2) energy retrofits, and (3) retro-commissioning, a systematic process that identifies low-cost operational and maintenance improvements in existing buildings to optimize system performance • Development of green building policies and standards by an energy task force which may serve as the basis for county ordinances • Development of phase two of the County Climate Action Plan, which will present a prioritized list of recommended actions and a schedule of costs for implementation to reduce green house gas emissions and manage water and other resources • The design, purchase, and installation of a generator for the Sacramento International Airport
San José	8.8 million	180,795	• Energy efficiency retrofits to municipal buildings, which could include replacing lighting, and installing cool roofs • Replace about 1,500 streetlights with more energy efficient Light Emitting Diode (LED) lights • Solar projects for municipal buildings including associated design, project engineering, building, solar assessments, and contracting for development services

Sources: GAO analysis of City of Redding, County of Sacramento, and City of San José data.

In addition to helping them meet energy efficiency goals, local government officials anticipate other benefits from EECBG Recovery Act funds, such as increased comfort and safety for residents and reduced operations and maintenance costs. For example, Redding plans to use EECBG funds for an energy retrofit program in which 65 to 70 homes of low-income residents will receive energy efficiency remediation through retrofits, such as new heating, ventilation, and air conditioning systems, which are expected to increase comfort as well as improve safety by reducing carbon dioxide levels within homes. According to San José officials, the city's

EECBG projects are estimated to provide the city $700,000 in energy savings each year. During the first 2 years, the savings will be returned to the city's energy fund to fund future energy projects, and in subsequent years, savings will go to the city's general fund. In order to reduce the county's energy use and maintenance costs, Sacramento plans to upgrade and retrofit several county facilities—a park facility in an underserved community, a community center, and a correctional facility. For example, the cost savings from spending approximately $531,000 in Recovery Act funds on energy efficiency improvements to a county correctional facility are estimated to pay for the project's Recovery Act portion within 5-years and result in future savings that the county can use for operations or other cost saving measures. See fig. 1 for more detail.

Figure 1: Energy and Cost Savings Associated with Sacramento County Correctional Facility Project Partly Funded by Recovery Act EECBG Funds

Project		Annual electric savings (kilowatt hours)	Annual natural gas savings (therms)	Annual cost savings
	Replace 4,158 light fixtures with higher efficiency units	847,587	N/A	$94,930
	Install a more reliable, higher efficiency cooling system	62,503	N/A	$5,698
	Replace obsolete and broken building temperature control system with a new digital, networked control system	85,773	2,845	$12,764
Total		**995,863**	**2,845**	**$113,392**

Sources: County of Sacramento; and GAO.

Recovery Act Funds Enabled California to Expand Existing Programs and Services

Although the Recovery Act provided first-time funding for some programs, like EECBG, Recovery Act funding increased funding levels for existing federal programs with annual appropriations, which allowed California recipients to expand services and implement new projects and activities. For instance, California was allocated $226 million in SEP funds through the Recovery Act, which is a significant increase from the state's fiscal year 2009 appropriation of $1.5 million. DOE requires Recovery Act SEP funds to be spent over a 3-year period and like EECBG funds these funds aim to achieve energy goals, such as increasing energy efficiency and decreasing energy costs. CEC, the state administering agency for SEP funds, expanded California's program by funding several new activities, including establishing a revolving loan program for energy efficiency retrofits to state buildings, providing loans to businesses to develop energy efficient products, and training for green jobs. CEC plans to use about half of the state's SEP allocation, $110 million, to retrofit various types of facilities including municipal, commercial, and residential buildings. This effort is known as the Energy Efficiency Program or SEP 110 and has three components targeting different markets. Table 3 provides additional details about the three subprograms.

Table 3: Description of the Three Subprograms under California's SEP 110 Energy Efficiency Program

Subprogram	Description
Municipal and Commercial Building Targeted Measure Retrofit ($50 million)	The program aims to achieve significant energy savings from targeted retrofit measures to the state's municipal and commercial buildings with a focus on capitalizing on low-risk, high-return efficiency opportunities that are readily available throughout the state. Some examples of measures include occupancy controlled lighting fixtures for parking lots; commercial kitchen ventilation; and heating, ventilation, and air conditioning (HVAC) systems.
Municipal Financing ($30 million)	The program will fund local governments to implement or continue a program in which property owners provide grants for the installation of energy efficiency or renewable energy generation improvements. One financing option under this program allows property owners to repay the assessments with their property taxes; however, other financing approaches will be considered.
California Comprehensive Residential Building Retrofit ($30 million)	The program will implement energy retrofits in existing residential buildings by working with groups such as local governments, utilities, affordable housing programs, and energy experts to create and retain jobs. The program will focus on deploying retrained construction workers, contractors, and youth entering the job market, and will pursue bringing the advantages of energy efficient housing to underserved, economically disadvantaged populations.

Source: CEC.

CEC plans to use the remaining $116 million on the following programs to help reduce long-term energy costs:

- **Revolving loans for state building retrofits**—CEC awarded $25 million to the Department of General Services to retrofit state buildings.
- **Green jobs workforce training**—CEC used $20 million of the state's SEP allocation to partner with the Employment Development Department and Employment Training Panel to train workers for green job skills, such as home energy rating, duct testing and sealing, and solar technology installation and design.

- **Low interest loans for energy conservation assistance**—CEC apportioned $25 million of its allocation to offer 1 percent loans to 25 local jurisdictions to invest in energy efficiency.

- **Clean energy business finance loans**—CEC plans to use about $31 million to fund a new loan program designed to promote clean energy manufacturing and provide financial assistance to both existing and start-up companies that make energy efficient products, such as photo voltaics, energy efficient motors, and bio-methane facilities that generate energy with methane.

- **Program support and evaluation**—CEC plans to use approximately $15 million to support the program administration, auditing, measurement, and evaluation of SEP funds.[4]

The Recovery Act also provided funds to existing federal education programs that allowed California LEAs to expand programs and services for students. Specifically, California was allocated approximately $1.1 billion in Recovery Act ESEA Title I, Part A, and about $1.3 billion in Recovery Act IDEA, Part B, funds, which was in addition to their regular fiscal year 2009-2010 allocations of $1.5 billion and $1.1 billion respectively. We previously reported that California LEAs planned to use Recovery Act funds to help retain jobs and improve services. We visited five of California's largest LEAs that were allocated a total of about $370.8 million in Recovery Act ESEA Title I, Part A, and $189.7 million in Recovery Act IDEA, Part B, funding as of June 11, 2010 and focused our discussions on how they used these funds to expand programs and services. Table 4 shows the amounts allocated to each of the five LEAs.

[4]Under SEP, recipients may use any amount judged "reasonable and prudent" by DOE when reviewing the state's plan of their awards for general services and administration. For SEP Recovery Act activities, states usually follow the limit that applies to their respective state funds.

Table 4: Amount of Recovery Act ESEA Title I, Part A, and IDEA, Part B, Funds Allocated to Selected LEAs as of June 11, 2010

Dollars in millions

LEA	ESEA Title I, Part A allocation	IDEA, Part B allocation
Los Angeles Unified School District	$323.7	$152.1
Moreno Valley Unified School District	5.0	7.4
Sacramento City Unified School District	13.8	10.4
San Bernardino City Unified School District	16.8	11.6
Stockton Unified School District	11.5	8.2
Total	**$370.8**	**$189.7**

Source: GAO analysis of information from the California Department of Education (CDE).

While LEAs we visited spent Recovery Act ESEA Title I, Part A, and IDEA, Part B, funds to help preserve jobs, they also plan to use funds to increase capacity through technology purchases and professional development for teachers and other staff that would have lasting effects. Some of the goals and related expected uses of Recovery Act spending identified by LEAs include:

Improve student achievement.

- Stockton Unified School District plans to spend about $433,000 in Recovery Act ESEA Title I, Part A, funds to provide professional development for its staff to support student achievement in the core curriculum[5] by hiring specialists to coach teachers in math and English language acquisition.

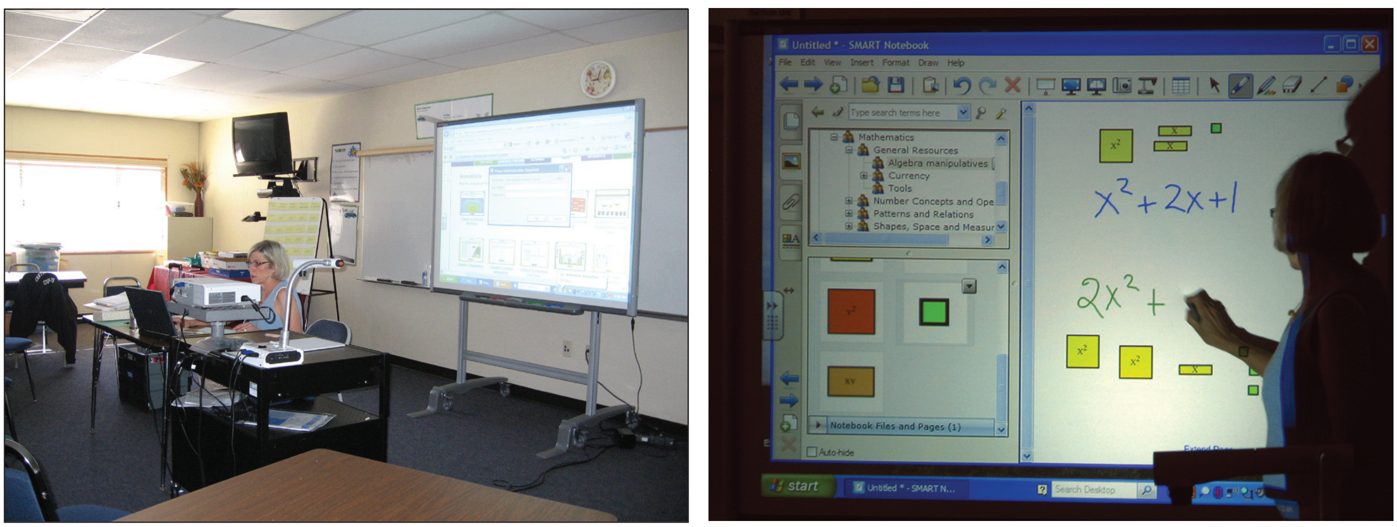
- Moreno Valley Unified School District is spending about $500,000 in Recovery Act ESEA Title I, Part A, funds to implement a math curriculum called "Digital Math"—which includes the procurement of 70 SMART Boards™[6] and training for teachers who will be using this

[5]ESEA defines core academic subjects as: English, reading/language arts, mathematics, science, foreign languages, civics/government, economics, arts, history, and geography.

[6]SMART Boards™ are interactive white boards that allow students to engage directly with the screen by using special stylus pens, fingers or a computer keyboard. In addition to the large white board screen, which is touch sensitive and is connected to a computer, the technology includes a wireless slate that the instructor uses as the master control and individual student response system, which allow students to answer from their desks as well as to vote on questions or topics. The technology can also come with a wide variety of programs, including programs for math and science.

technology. The program is aimed at improving student achievement in mathematics at the district's four middle schools that have been in improvement status[7] for over 5 years. The curriculum is scheduled to be implemented in September 2010 and, according to Moreno Valley Unified School District officials, will help improve students' math achievement by increasing student engagement. Figure 2 shows a teacher demonstrating the interactive feature of a SMART Board™.

Figure 2: SMART Board™ Demonstration at Moreno Valley Unified School District



SMART Board™ classroom set up with projection screen

Teacher demonstration of interactive SMART Board™ feature

Source: GAO.

Expand teacher capacity with new skills and techniques.

- Los Angeles Unified School District is using about $4.1 million in Recovery Act ESEA Title I, Part A, funds to support two major professional development initiatives aimed at enhancing the district's efforts toward data-driven instruction by providing teachers with the

[7]ESEA requires all states to implement statewide accountability systems based on challenging state standards in reading, mathematics, and science; annual testing for all students in grades three through eight; and annual statewide progress objectives ensuring that all groups of students reach proficiency by 2014. LEAs and schools that fail to make Adequate Yearly Progress toward statewide proficiency goals are subject to improvement and corrective action measures.

skills to access student data and use it to improve both their teaching proficiency and student achievement. These two initiatives are (1) training for a student intervention program, which includes coaching and problem solving that will help teachers provide instruction (e.g., in reading, math, and language development) and intervention that matches student needs; and (2) training on the district's student performance data system to help teachers better identify student and classroom needs.

- For the 2009-2010 school year, San Bernardino City Unified School District used about $3.7 million for the salaries and benefits of 42 full-time teaching coaches—one at each school in the district—to help teachers implement new learning strategies and improve their classroom techniques. According to officials, schools with coaching programs have fewer students in intervention programs—reflecting the improvement in teachers' ability to serve student needs and promote student achievement.

Better address needs of special education students.

- Los Angeles Unified School District plans to use approximately $1 million in Recovery Act IDEA, Part B, funds for four libraries, where teachers, students, and parents can preview and try out assistive technology[8]—such as computer and speech generating devices controlled by eye movement, lightweight, portable electronic keyboards that can be integrated with whiteboards, and other classroom technologies—before the district purchases it for them.[9] According to officials, these libraries could help save money over the long run by averting expensive equipment purchases that ultimately do not work for the students and help ensure students with disabilities and special needs can be assisted to meet their academic, social, and behavioral goals.

[8]Assistive technology is an item, piece of equipment, or system, whether acquired commercially, modified, or customized, which is commonly used to increase, maintain, or improve functional capabilities of individuals with disabilities.

[9]According to Los Angeles Unified School District officials, the district also created a library Web site that will contain links to associated training materials as well as links to resources for parents to use to help their children communicate, complete homework, and access curriculum.

- Stockton Unified School District is using Recovery Act IDEA, Part B funds to help address the needs of the growing number of autistic students. The LEA has awarded a contract with a value of $12,000 for an assessment to determine the district's training needs in serving these students. According to officials, during the 2010-2011 school year, they plan to develop a training plan based on this assessment and to spend $50,000 for the associated training.

- One of the schools we visited in the San Bernardino City Unified School District spent about $20,000 on a "sensory room," where autistic students can take time out from their regular classroom to calm down when they feel agitated, which was something officials told us the school needed and wanted to purchase for a long time (fig. 3 shows items in the sensory room). According to officials, the sensory room environment with bright colors has the ability to both stimulate and calm the sensory system. Practitioners at the facility said that the sensory stimulation students receive helps them be more attentive when they return to the classroom.

Figure 3: Recovery Act IDEA, Part B Funds Used for a Sensory Room for Special Needs Students at a School in the San Bernardino City Unified School District

Source: GAO.

Reduce spending on costly outside services.

- Los Angeles Unified School District officials said they are focusing Recovery Act IDEA, Part B, funding to build district capacity to better accommodate students with special needs, which will result in less spending on outside providers for those services. For example, the district spent about $150,000 to train 6,000 paraprofessionals in behavior management during the last week of June 2010 to improve their long-term ability to help special education students with appropriate classroom behavior and social skills, which will also help reduce the district's reliance on outside professionals. Officials said the paraprofessionals will be better able to assist teachers in maintaining an effective teaching classroom environment that promotes student achievement.

- Sacramento City Unified School District is spending about $394,000 in Recovery Act IDEA, Part B, funds to reform the district's approach to special education needs using a model aimed at including special education students in regular classrooms.[10] District leadership hopes to see an increase in the number of special education students being supported in regular classrooms within 5 years. Through this model and other training and intervention efforts funded by the Recovery Act, the district plans to increase its capacity to provide services to special needs students and decrease their use of outside services.

In addition to these special education initiatives, all of the LEAs we met with reported taking advantage of the flexible spending authority under IDEA that allows them to reduce their local special education funding and spend it on non-special education activities, such as teacher and other salaries.[11] For example, Los Angeles Unified School District officials said they used over $67 million in Recovery Act funds to support programs they would otherwise have had to cut from their operating budget.

For school year 2010-2011, according to Education data, California is projected to receive about $1.2 billion from the new Education Jobs Fund.[12] The Education Jobs Fund will generally support education jobs in

[10]This inclusion approach involves keeping special education students in regular classrooms and bringing the support services to the child, rather than the child to the support services.

[11]Generally, in any fiscal year in which an LEA's IDEA, Part B, allocation exceeds the amount the LEA received in the previous year, the LEA may reduce its local spending on disabled students by up to 50 percent of the amount of the increase, as long as the LEA (1) uses those freed-up funds for activities authorized under the ESEA, (2) meets the requirements under the act, and (3) can provide each child a free and appropriate public education.

[12]Section 101 of Public Law 111-226, enacted on August 10, 2010, provides $10 billion for the new Education Jobs Fund to retain and create education jobs nationwide.

the 2010-2011 school year and be distributed to states by a formula based on population figures. States can distribute their funding to LEAs based on their own primary funding formulas or districts' relative share of federal ESEA Title I funds.

Some Recovery Act Recipients Faced Initial Challenges That Affected Spending Timelines, but Are Now on Track to Meet Milestones

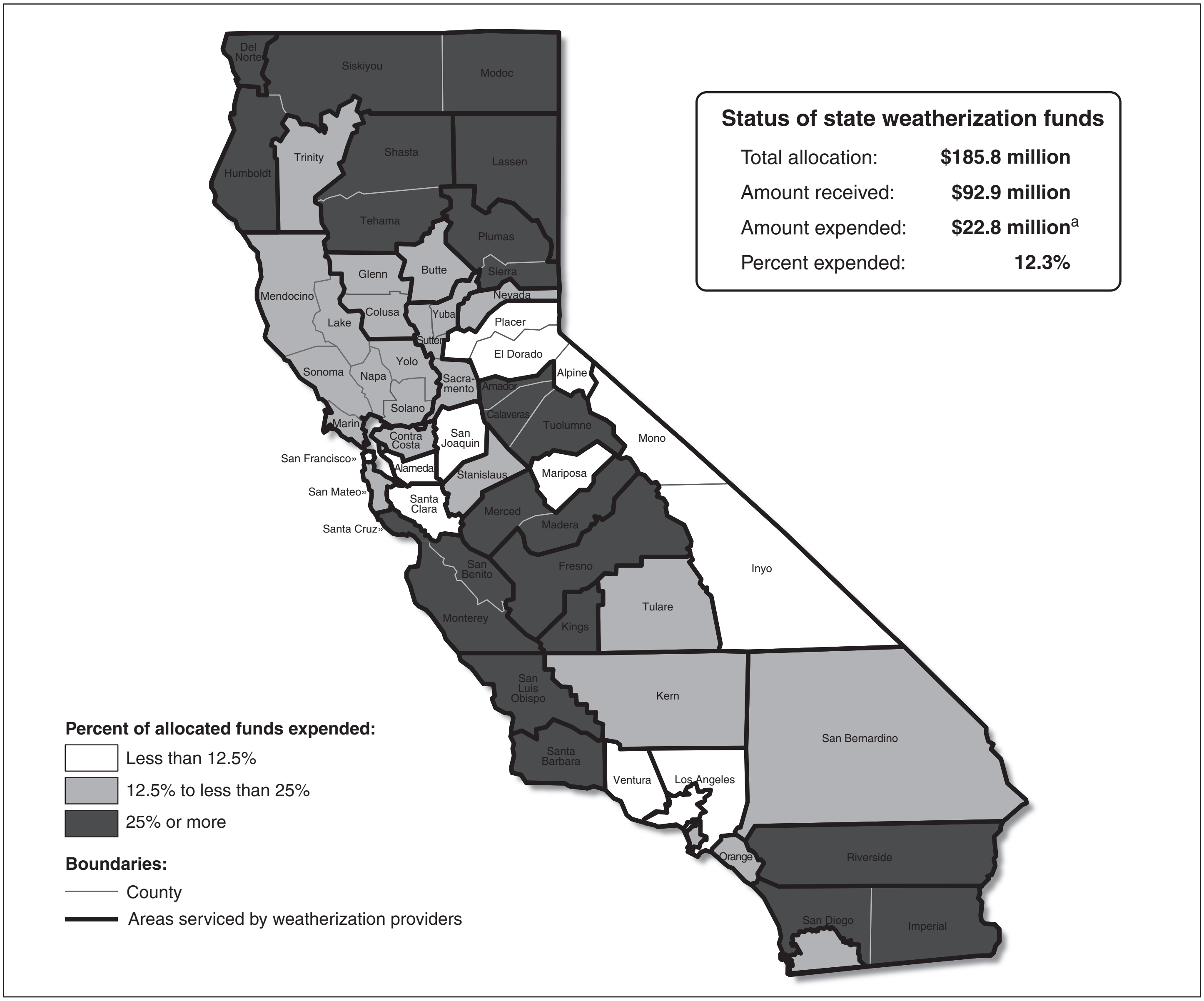
Our prior reports highlighted challenges faced by state recipients of Recovery Act Weatherization Assistance Program and JAG funds, but both programs have recently overcome hurdles and are on track to meet production goals and spending milestones. California was allocated approximately $186 million in Recovery Act funds to be spent over a 3-year period for the Weatherization Assistance Program, which enables low-income families to reduce their utility bills by making long-term, energy efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment. By June 2009, DOE had provided 50 percent—about $93 million—of these funds to the California Department of Community Services and Development (CSD), the state agency responsible for administering the program.[13] DOE limited California's and other states' access to the remaining funds until each has met certain performance milestones, including weatherizing 30 percent of all homes estimated to be weatherized in the approved state plan.[14] In prior reports, we highlighted delays in this program, which could affect California's ability to access the remaining 50 percent of Recovery Act funds, including the fact that, in March 2010, CSD did not yet have service providers in place for six areas of the state. Additionally, as of March 31, 2010, CSD had weatherized 2,934 homes, which was short of its target to weatherize 3,912 homes for the first quarter. Recently, CSD made progress in these areas. Specifically, CSD did the following:

[13]California's $186 million Recovery Act weatherization allocation represents a large increase in funding over California's annual weatherization program appropriation, which was about $14 million for fiscal year 2009. CSD retained about $16 million of the 50 percent received (approximately $93 million) to support oversight, training, and other state activities and distributed the remaining roughly $77 million to local weatherization service providers, including nonprofit organizations and local governments.

[14]The other performance milestones recipients must meet to access the remaining funds are (1) monitoring all service providers at least once each year to determine compliance with administrative, fiscal, and state policies and guidelines; (2) inspecting at least 5 percent of completed units during the course of the respective year; (3) fulfilling the monitoring and inspection protocols established in the approved state plan; (4) ensuring that local quality controls are in place; and (5) submitting timely and accurate progress reports to DOE and confirmation of acceptable performance by recipients via DOE monitoring reviews.

- **Secured service providers for all areas.** As of June 30, 2010, CSD awarded contracts to service providers for the remaining six areas and has a total of 38 service providers in place covering all 58 counties of the state. Service providers spent about $22 million on weatherization services, as of June 30, 2010, with some providers expending funds at a faster rate than others (see fig. 4).

Figure 4: Expenditure Rates for California's Weatherization Service Providers, as of June 30, 2010



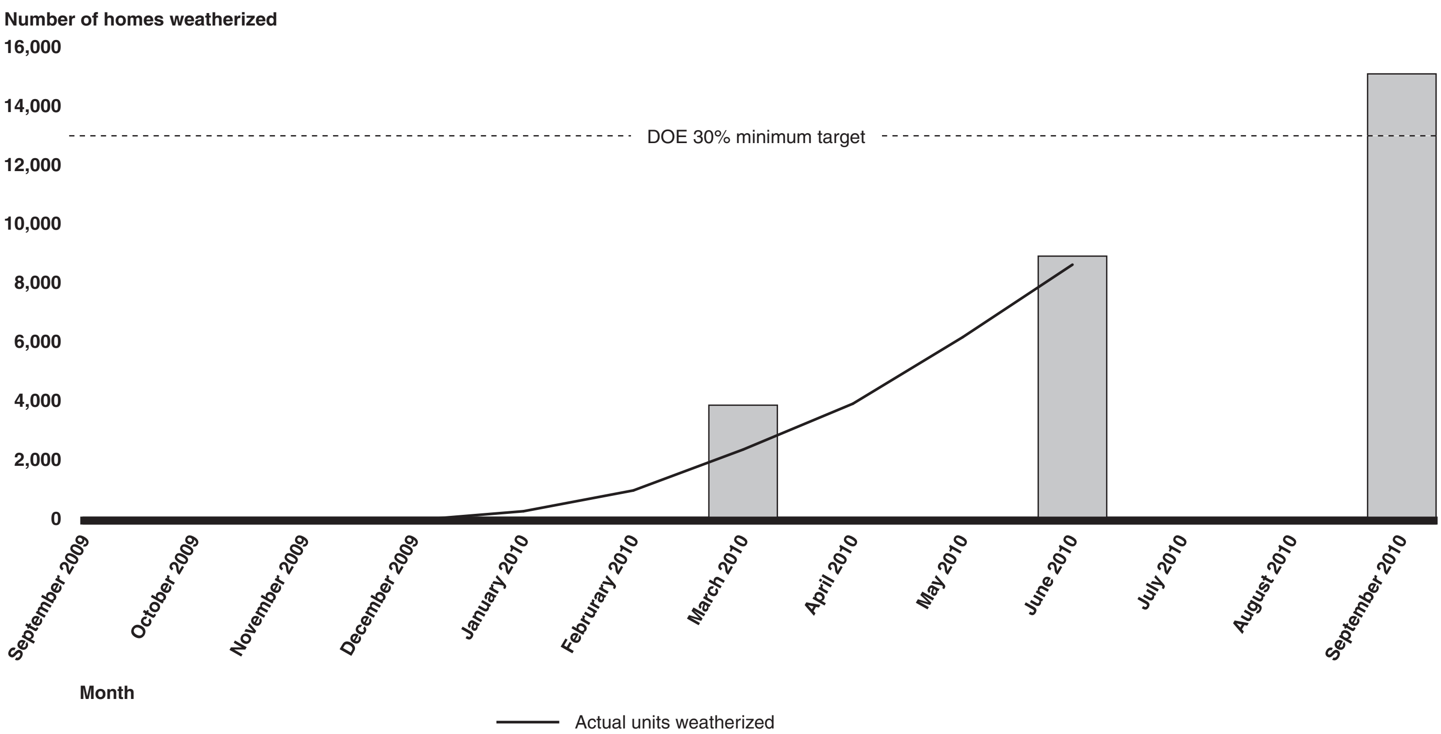
Sources: GAO analysis; Map Resources (county map)

Note: Service providers for the counties of Alpine, El Dorado, San Francisco, San Mateo, and parts of Alameda and Los Angeles were awarded contracts by CSD to begin weatherizing units on June 30, 2010.

[a]As of June 30, 2010, service providers expended about $21.8 million of the approximately $77 million that has been distributed to them by CSD and CSD has spent about $1 million on oversight, training, and other statewide activities.

- **Increased pace of weatherization to help meet production targets.** While CSD initially experienced delays weatherizing homes, it made steady progress toward meeting DOE's performance milestone of weatherizing 30 percent of the total number of units estimated to be weatherized with Recovery Act funds by weatherizing 8,679 homes or about 20 percent, as of June 30, 2010. DOE officials indicated that its goals are for each recipient to have met this target by September 30, 2010. As a result, CSD set September 30, 2010, as the deadline for the state to weatherize 15,145 homes, or 35 percent of the total goal of 43,150 units, which exceeds DOE's minimum target of 12,945 units. Figure 5 shows the monthly progression of units weatherized through June 30, 2010.

Figure 5: California's Unit Production Progress Toward Meeting Targets, as of June 30, 2010



Source: GAO analysis of DOE and CSD data.

While CSD is on track to meet its September 2010 production target, lower than expected per unit expenditures have affected CSD's rate of spending and may necessitate an increase in its targets. As of June 30, 2010, the average cost to weatherize a unit was $2,750 or approximately 21 percent lower than CSD's projected average of $3,500 per unit.[15] According to the service providers we met with, one factor that reduced the cost per unit was instances in which test[16] results showing that the unit already met minimum ventilation standards precluded them from installing additional energy conservation measures in a unit. The energy conservation measures service providers can provide to eligible residents are prescribed in CSD's state plan under the list of allowable cost-effective measures. As of June 17, 2010, CSD officials recently updated the list of measures, which should have been revised in 2006, and submitted it to DOE for expedited approval.[17] According to CSD officials, once the list is approved, they expect per unit expenditures to increase, because new measures were added to the list, which will allow service providers to implement additional cost-effective measures per unit. CSD officials plan to continue monitoring spending rates and production levels, and stated that CSD will amend its production targets, if necessary.

Our May 2010 report also noted that the California Emergency Management Agency (Cal EMA), the state agency responsible for administering JAG funds to localities, began awarding funds to localities in February 2010 after spending 3 months defining program strategies for 2 of 10 targeted funding areas: Intensive Probation Supervision Program and Court Sanctioned Offender Drug Treatment Program. These two activities accounted for $90 million of the $135.6 million allocated to the state to award to local jurisdictions. As of June 30, 2010, Cal EMA awarded almost all of the $135.6 million Recovery Act JAG funds to localities,[18] and anticipates that all funds will be expended well before the February 28, 2013, deadline.

[15]California's projected average cost per unit is significantly lower than the $6,500 maximum average allowable under the Weatherization Assistance Program. CSD officials believe that the maximum average was raised to $6,500 by the Recovery Act primarily to meet the needs of states with more extreme climates than California where more weatherization measures can be installed.

[16]CSD requires that blower door tests, which measure a unit's building tightness, be performed on 100 percent of weatherized units with an exception for multifamily properties. For multifamily properties, it is recommended that the blower door test be performed on a sample of units.

[17]CSD's current list of cost-effective weatherization measures authorized for use by service providers to weatherize homes was last approved by DOE in October 2001. The list is required to be revalidated every 5 years.

[18]Of the $135.6 million allocated to the state, about $550,000 remains to be allocated. Cal EMA plans to retain those funds for state operations.

Although Recovery Act Funds Expanded Programs and Services, Budgetary Problems Persist at the State and Local Levels

Task Force officials reported that Recovery Act funds played an important role in helping balance the state's fiscal year 2009-2010 budget, but there will be a lesser impact this fiscal year because the state depleted its SFSF funds and other one-time Recovery Act funds. As discussed in our prior reports, a portion of the state's Recovery Act funds—over $8 billion—was used to help balance its fiscal year 2009-2010 budget, when the state faced a nearly $60 billion budget gap. As of August 19, 2010, the state faces an estimated budget gap of $19 billion and has not yet adopted a 2010-2011 budget for the fiscal year that began on July 1, 2010.[19] In May the Governor proposed addressing the gap with a number of budget solutions, including about $12 billion in spending reductions, such as reducing funding for local mental health services by approximately 60 percent and eliminating some programs. In June, the State Controller informed the Governor and state legislative leaders that in the absence of a state budget, the state will cease to make certain payments including payments to local governments, vendors (for services provided on or after July 1), and salaries of state elected officials and their appointed staff. The State Controller's office also plans to issue registered warrants, called IOUs, beginning in late August or September, if the situation continues.[20]

Officials we met with from two local governments—Redding and San José—also reported that they continue to face budgetary problems. For example, Redding officials anticipate budget and staff reductions, and told us that over the last 3 years their general fund budget has been reduced from $74 million to $60 million, a 20 percent decrease. According to Redding officials, retail and property tax revenue decreases are the primary reason for their general fund budget reductions. In San José, officials reported that for fiscal year 2010-2011, the city had a $118.5 million gap, its largest deficit ever. According to San José officials, to close the gap, the city took several actions, such as deferring the openings of new facilities such as community centers, parks, and fire stations, cutting public services, increasing fees and charges, and eliminating city positions. San Jose eliminated 783 FTEs from the 2010-2011 budget, which represents a 12 percent reduction from the city's 2009-2010 workforce

[19]The California state government fiscal year is July 1 to June 30. Included in the estimated $19 billion budget gap is a nearly $8 billion general fund deficit at the end of the 2009-2010 fiscal year.

[20]A registered warrant is a "promise to pay" with interest, that is issued by the state when there is not enough cash to meet all of its payment obligations. The State Controller's office issued $1.95 billion in registered warrants last fiscal year when the state failed to pass a budget before the start of the state 2009-2010 fiscal year on July 1, 2009.

level of 6,623 FTEs.[21] Figure 6 highlights selected information about the local governments that we met with.

Figure 6: Information about Redding and San José

	Redding	San José
Estimated population (July 1, 2009):	90,521	964,695
Unemployment rate, June 2010:	13.4%	12.5%
Total Recovery Act funding awarded (dollars in millions):	$9.4	$108.1
Budget fiscal year 2010 (dollars in millions):	$307	$3,000
Locality type:	City	City

Sources: U.S. Census Bureau and U.S. Department of Labor (demographic information); City of Redding and City of San José (funding information); Map Resources (map); and GAO.

Notes: Population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for June 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

Although these localities continue to face budgetary problems, Recovery Act funds helped them fund infrastructure and other improvement projects that will have lasting benefits. Redding officials reported that the city was awarded about $9 million in Recovery Act funds, and San José officials reported Recovery Act awards totaling about $108 million for projects and services. In general, officials from both localities noted that Recovery Act funds were used to fund projects that had no previous funding identified. For example, approximately $3 million in transportation Recovery Act funds allowed Redding to pursue a highway interchange project—which they were previously unable to obtain funding for—that will facilitate future commercial and retail growth in the area. San José plans to use $25 million in housing Recovery Act funds to purchase and rehabilitate foreclosed and abandoned homes in targeted areas around the city, and provide secondary financing for income-eligible purchasers of foreclosed homes, among other activities. Table 5 describes selected projects that were funded by Redding and San José using Recovery Act funds.

[21]According to San José officials, the position eliminations resulted in over 228 employee layoffs, with over 100 additional employees having to accept lower level positions within the city to help bridge the budget gap.

Table 5: Selected Projects Funded by Redding and San José Using Recovery Act Funds

Program Area	Redding	San José
Aviation	$0.7 million in Grants-in-Aid for Airports funds used for improvements to extend the life of runway pavement and to re-paint runway markings to be in compliance with new safety standards.	$20.9 million in Electronic Baggage Screening funds for the installation of a baggage screening system and about $5.2 million in Grants-in-Aid for Airports funds for airport taxiway improvements.
Highway	$3.2 million in Recovery Act Federal-Aid Highway Surface Transportation funds for the construction of a highway interchange, as well as pavement preservation throughout the city.	$15.4 million in Recovery Act Federal-Aid Highway Surface Transportation funds to resurface 25 miles of arterial streets in the city.
Water	$2.0 million from a Clean and Drinking Water State Revolving Fund grant for the construction of a wastewater treatment center.	$6.5 million in U.S. Bureau of Reclamation Title XVI funds to support the construction of 15 miles of pipeline for recycled water.

Source: GAO analysis of information from the City of Redding and the City of San José.

State and Local Entities Continue to Conduct Oversight Activities to Help Ensure Appropriate Accountability for Recovery Act Funds

State oversight entities in California continue their efforts to ensure appropriate uses of Recovery Act funds. The Task Force and the California Recovery Act Inspector General carry out their ongoing oversight responsibilities by regularly meeting with state departments and agencies receiving Recovery Act funds to ensure funds are efficiently and effectively spent, among other activities. For example, since our last report, the Task Force issued two more Recovery Act Bulletins to provide instructions and guidelines to state agencies receiving Recovery Act funds. Since May 2010, the California Recovery Act Inspector General published five reviews of Recovery Act funds received by four localities—subrecipients of funds administered by three different state agencies for three different Recovery Act programs—and one state department, the Department of Rehabilitation. The four subrecipient reviews were aimed at determining if these recipients properly accounted for and used Recovery Act funds in accordance to federal laws and requirements. Three of the reviews identified several issues, including inappropriate eligibility determinations, incorrectly reported job calculations, and ineligible expenditure charges, and the localities have taken steps to respond to these findings. There were no issues identified in the other two reviews.

As of August 18, 2010, the State Auditor's role in overseeing Recovery Act funds has included testimony during five state and one federal legislative committee hearings, issuance of the traditional Single Audit[22] report for state fiscal year 2008-2009, and issuance of nine interim reports or letters communicating early results of the Single Audit as part of an OMB project intended to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken more quickly. The Single Audit report for the year ending June 30, 2009, was the first Single Audit for California that included Recovery Act funds. The report identified 226 significant internal control deficiencies related to compliance with federal program requirements, of which 85 were classified as material weaknesses. Some of these material weaknesses and significant deficiencies occurred in programs that included Recovery Act funds.

Since our last report, the California State Auditor also followed up on interim report recommendations made to three state agencies—Cal EMA, CEC, and CSD—administering Recovery Act funds under the JAG, SEP, and Weatherization Assistance Program, respectively.[23] Our prior reports noted the State Auditor's work in these areas, which covered issues such as the pace of spending and program monitoring and evaluation procedures. According to the State Auditor's June 9, 2010 update on these programs, all three agencies made progress in response to the State Auditor's recommendations, but some issues remain. Table 6 provides a summary of selected State Auditor comments and results of follow-up work on recommendations made to the three agencies. The State Auditor plans to continue to monitor these agencies and issue interim reports on their progress. Additionally, the State Auditor is also reviewing the reliability of California's recipient reporting data for selected programs.

[22]Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, (31 U.S.C. §§ 7501–7507) and provide a source of information on internal control weaknesses, noncompliance with laws and regulations, and the underlying causes and risks.

[23] California State Auditor, Bureau of State Audits, *California Emergency Management Agency: Despite Receiving $136 Million in Recovery Act Funds in June 2009, It Only Recently Began Awarding These Funds and Lacks Plans to Monitor Their Use*, Letter Report 2009-119.4 (Sacramento, Calif.: May 4, 2010); California State Auditor, Bureau of State Audits, *California Energy Resources Conservation and Development Commission: It Is Not Fully Prepared to Award and Monitor Millions in Recovery Act Funds and Lacks Controls to Prevent Their Misuse*, Letter Report 2009-119.1 (Sacramento, Calif.: Dec. 1, 2009); California State Auditor, Bureau of State Audits, *Department of Community Services and Development: Delays by Federal and State Agencies Have Stalled the Weatherization Program and Improvements Are Needed to Properly Administer Recovery Act Funds*, Letter Report 2009-119.2 (Sacramento, Calif.: Feb. 2, 2010).

Table 6: Selected California State Auditor Updates to Reviews of Three Recovery Act Programs, as of June 9, 2010

Recovery Act program	Administering state agency	Selected State Auditor recommendations	Selected State Auditor comments and results of follow-up work
JAG	Cal EMA	Promptly execute subgrant agreements to localities. Identify the workload associated with monitoring subrecipients and the workload standards necessary to determine the number of program staff needed.	As of May 24, 2010, Cal EMA executed 214 subgrant agreements totaling $118.9 million of the $135 million administered by the state. Cal EMA provided the audit team three workload measurement tools; however, none provided convincing evidence of the number of program staff needed to administer the Recovery Act program.
SEP	CEC	Take the necessary steps to implement a system of internal controls adequate to provide assurance that Recovery Act funds will be used to meet the purposes of the Recovery Act.	CEC awarded a contract valued at $4.1 million to provide performance evaluation and reporting capabilities to assist CEC in meeting its subrecipient monitoring and reporting responsibilities. While the contract contains specific tasks, it does not assign timelines to the tasks, without which CEC cannot be certain the benefits of the contract will be available in time to provide meaningful monitoring, evaluation, and verification of subrecipient performance.
Weatherization	CSD	Seek federal approval to amend its state plan for implementing the program.	CSD amended its state plan to reduce the number of homes it intends to weatherize. However, at the request of the Governor's Office DOE performed an assessment of CSD in March 2010 and informed CSD that it may need to weatherize 3,300 more homes if the average cost to weatherize each home remains low.

Source: GAO analysis of information provided by the California State Auditor.

With the exception of the San José Auditor, local auditors we met with have not yet conducted Recovery Act-specific audits. While some auditors told us that they planned to conduct Recovery Act-specific audits in the future, others stated that staffing limitations hindered their ability to conduct such audits on top of their normal workload. However, we met with officials from the Office of the San José City Auditor, which issued two Recovery Act reports to date. The first report, issued on June 18, 2009, focused on San José's readiness to receive Recovery Act funds and comply with Recovery Act requirements. The next report issued on November 12, 2009, reviewed San José's ability to comply with Recovery Act recipient reporting requirements and included the following observations:

- The San José City Manager's Office was not regularly updating all parts of the city's Recovery Act Web site to help ensure reporting transparency.

- While corrections to Recovery Act reports were being performed in accordance with federal guidance, the process for making corrections was not consistent.

According to officials from the San José Auditor's office, the city has taken actions to address the concerns raised in the report. In addition, the San José Auditor's office has proposed a third Recovery Act report to review the effect Recovery Act funds will have on local taxpayers.

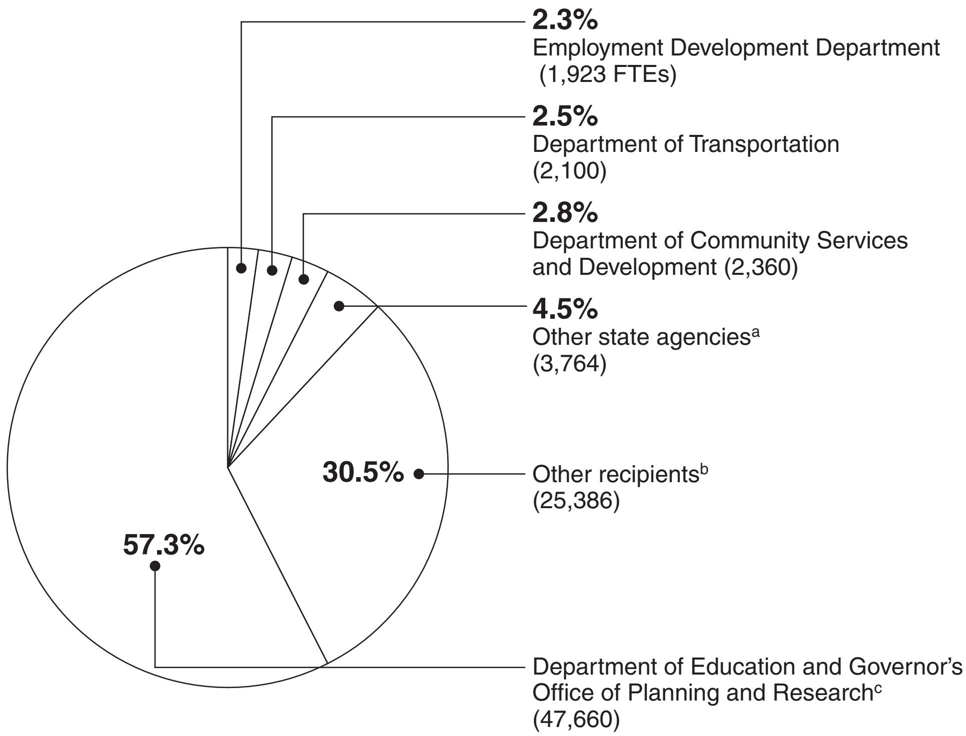
California Reported over 83,000 Jobs in the Fourth Reporting Cycle and Continued to Make Improvements in the Reporting Process

According to Recovery.gov, as of July 31, 2010, California recipients reported funding 83,193 FTEs[24] with Recovery Act funds during the fourth quarter reporting period, which covers the period April 1, 2010, to June 30, 2010.[25] California recipients were awarded numerous new Recovery Act grants and expended more Recovery Act funds this quarter compared to last quarter, according to the Task Force. Through the Task Force's centralized reporting system for Recovery Act funds received through state agencies—the California ARRA Accountability Tool (CAAT), 35 California state agencies reported funding a total of about 57,807 FTEs during the fourth round of recipient reporting, or about 70 percent of the total reported for California. Other recipients that receive Recovery Act funds directly from federal agencies report through the national database, FederalReporting.gov. Figure 7 provides further details on the number of FTEs reported for the fourth quarter of recipient reporting.

[24]An FTE is a full-time equivalent, which is calculated as the total hours worked divided by the number of hours in a full-time schedule.

[25]Although the reporting deadline has passed, the nationwide data system, FederalReporting.gov, was reopened for a period of correction—for the fourth reporting cycle the period is from August 2 through September 20, 2010.

Figure 7: FTEs Reported by California Recipients of Recovery Act Funding for the quarter ending June 30, 2010, as of July 31, 2010



Source: Recovery.gov.

Notes: Totals may not add to 100 percent due to rounding.

[a]Other state agencies include the CEC, Cal EMA, and the California Department of Public Health.

[b]Other recipients are those that received Recovery Act funding directly from federal agencies, such as local governments, transit agencies, and housing authorities.

[c]Estimates for the Department of Education and the Governor's Office of Planning and Research were combined because the Office of Planning and Research acts as the pass-through agency for education funds under the SFSF.

During the fourth round, Task Force officials took steps to ensure California recipients that do not directly report through the CAAT were accurately reporting FTEs and said that this round of recipient reporting went more smoothly than prior rounds for those state agencies that report directly through the CAAT. For example, the Task Force requested a list of California recipients that did not report the previous quarter. The Task Force sent these recipients letters to inform them of their status and provided them with input to improve reporting in future quarters. Additionally, the Task Force partnered with CDE to host a webinar for CDE's subrecipients on calculating and reporting FTEs on June 1, 2010, following the issuance of our May 2010 report in which we raised concerns about FTEs reported by CDE.

CDE also took steps to address recipient reporting concerns we raised in prior reports. In prior reports we highlighted concerns about underreporting of vendor FTEs by CDE subrecipients and the need for CDE to review the FTE information for reasonableness. CDE responded to these concerns by taking the following actions:

- In May 2010 CDE issued additional guidance to LEAs and other subrecipients on jobs reporting for vendors. Several LEAs we previously visited had believed that vendor FTEs were only reported for contracts over a $25,000 threshold. The new guidance specifically noted that FTEs must be reported for all direct[26] vendor jobs irrespective of the total contract amount and noted that FTEs are to be reported as a separate data element.
- CDE spent more time reviewing the reports of the 10 largest LEAs during the last reporting period by performing a reasonableness check on all of their reports, as we recommended in our May 2010 report.

Overall, CDE officials were pleased with the recipient reporting results for the quarter and did not experience any major problems. CDE officials said that almost all of the LEAs that were required to report responded. CDE followed up with the LEAs that did not report and plans on updating its quarterly report at the end of the correction period.

State Comments on This Summary

We provided the Governor of California with a draft of this appendix on August 16, 2010. Representatives from the Governor's office agreed with our draft. We also provided various state agencies and local officials with the opportunity to comment. In general, they agreed with our draft and provided some clarifying and technical suggestions that were incorporated as appropriate.

[26]Under OMB guidance, prime recipients are required to generate estimates of job impact by directly collecting specific data from subrecipients and vendors on jobs resulting from a subaward. To the maximum extent practicable, prime recipients are to collect information from all subrecipients and vendors in order to generate the most comprehensive and complete job impact numbers available. Job estimates on vendors are to be limited to direct job impacts and not include "indirect" or "induced" jobs. OMB, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, § 5.7 (Dec. 18, 2009), at 19.

GAO Contact

Linda Calbom, (206) 287-4809 or calboml@gao.gov

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