

April 30, 2009

Mr. Fred Klass, Chief Operating Officer
Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

Management Letter—American Recovery and Reinvestment Act Readiness Review

On behalf of the California Federal Economic Stimulus Task Force, you requested that the Office of State Audits and Evaluations (OSAE) conduct an oversight and accountability readiness review for the American Recovery and Reinvestment Act (ARRA) funding for six departments. OSAE has completed its review which included the following departments: (1) Department of Transportation (Caltrans), (2) Employment Development Department, (3) California Energy Commission (CEC), (4) Department of Community Services and Development (CSD), (5) Office of Planning and Research, and (6) State Water Resources Control Board.

In Summary

Based on our review, four of the six departments reviewed have adequate oversight and accountability controls in place related to ARRA funding. However, the CEC and the CSD should address concerns and recommendations identified in this review to achieve adequate oversight and accountability readiness. Additionally, we recommend 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 ARRA specific reporting data requirements.

Scope and Methodology

The objective of the review was to assess each department's oversight and accountability readiness over ARRA funding. The following ARRA related publications and guidance documents were reviewed to develop key criteria and interview questions for all departments:

- *Guidance from the Government Accountability Office (GAO-09-453T)*, March 5, 2009
- *Guidance from the Office of Management and Budget*, April 3, 2009
- Report prepared by various federal organizations, titled "*Initial Accountability, Reporting, and Risk Areas for States*", February 26, 2009
- Notice titled "*Information Collection Activities: Proposed Collection; Comment Request*" issued by the Office of Management and Budget on April 1, 2009
- National Procurement Fraud Task Force best practice guidance, February 2009

In the absence of established criteria, we used reasonable expectations, best practices, and relied upon our expertise in internal controls and program reviews. Based on the above, we developed interview questions for the following core readiness areas:

- Oversight and Fraud Prevention
- Grants Management and Accountability
- Reporting Requirements
- Transparency

This review is not considered an audit and therefore is limited in scope. In order to meet our objectives we relied upon interviews and inquiry of departmental staff. We did not evaluate documents and reports received from the departments for validity. However, nothing came to our attention that led us to believe the information provided was unreliable or misstated. The review was performed April 13, 2009 through April 27, 2009.

Review Results

The attached Readiness Review Tables summarize the review results for each department. In summary, we identified the following concerns related to the departments' readiness:

- Additional federal requirements for existing programs are creating challenges. For example, the CSD stated that for the federally funded Weatherization Assistance Program they will likely lose their federal exception to the prevailing wage law (Davis-Bacon Act). Therefore, they will likely be required to comply with the Davis-Bacon Act.
- Increased need to improve oversight and controls by identifying and mitigating departmental risks related to ARRA on an ongoing basis.
- Identification of high-risk sub-recipients for additional training and monitoring.
- Development of agreement language requiring grantees to comply with changing ARRA requirements.
- Development and communication of statewide standards for the form and content of reporting ARRA information on departmental websites is needed.
- Development and communication of statewide plan to coordinate and communicate data collection efforts among the various ARRA funded departments is needed.

Lastly, departments expressed the need to coordinate all audit efforts to prevent duplication.

Recommendation

We recommend departments develop and submit corrective action plans to address the concerns we noted in this review. Additionally, the corrective action plans should include requested documentation which was not provided during this review. The corrective action plans should be submitted to OSAE within 30 days from the date of this letter. OSAE is also prepared to provide assistance to departments receiving ARRA funding.

We appreciate the departments' assistance and cooperation during our review. If you have any questions regarding this letter, please contact Diana Antony, Manager, at (916) 322-2985.

Sincerely,

A handwritten signature in black ink, appearing to read "David Botelho". The signature is written in a cursive style with a large, prominent initial "D".

David Botelho, Chief
Office of State Audits and Evaluations

**State Water Resources Control Board
Readiness Review Table**

Overall Assessment: The State Water Resources Control Board (SWRCB) has significant experience managing federal funds. This experience has facilitated SWRCB's preparation for receipt, expenditure and oversight of American Recovery and Reinvestment Act (ARRA) funds.

Recommendation: The SWRCB should increase the accessibility and transparency of their ARRA webpage.

	Expectation Met	Comments	10 Day Corrective Action Plan
Oversight and Fraud Prevention			
Knowledgeable about departmental oversight responsibility	Y	Knowledgeable about their oversight responsibilities. All ARRA funds flow through SWRCB, and therefore no funds were awarded directly to recipients.	
Clear guidance has been received from federal agency on departmental oversight roles and responsibilities for funds provided directly to localities	N/A	There are no funds provided directly to localities that the department is responsible for oversight.	
Departmental risk assessments prepared and ARRA risks are addressed	Y	A risk assessment and a workload analysis were completed and appear adequate, resulting in additional oversight controls.	
Communication with federal oversight agency	Y	Frequent and ongoing communication within the SWRCB programs and with the United States Environmental Protection Agency (USEPA).	
Administrative costs established with federal oversight agency	Y	Been approved by USEPA to apply 4 percent of ARRA funds to administrative costs.	
Fraud awareness training	Y	Has provided training for staff on fraud awareness and the additional reporting requirements of the ARRA funds.	
Financial Integrity and State Manager's Accountability Act (FISMA) Compliant—Department prepared a 2007 FISMA report on the adequacy of the entity's systems of internal control and submitted a corrective action plan within 6 months	Y	The 2007 FISMA report and corrective action plans were submitted.	
ARRA review performed in April 2009 by Government Accountability Office (GAO)	N/A	GAO did not select the department for their review.	
Tracking system in place to address prior audit findings	Y	Tracking system is in place. No prior Single Audit findings, OSAE prior audit findings have been addressed and new oversight procedures have been implemented.	
Submitted California Strategic Growth Plan - Bond Accountability Plans	Y	The Department has submitted their required bond accountability plans to the Department of Finance.	
Grants Management and Accountability			

	Expectation Met	Comments	10 Day Corrective Action Plan
Recipient training	Y	Provided 6 workshops to potential applicants throughout the state with an average of 300 attendees.	
Competitive grants and fixed-price agreements	Y	Currently operates these programs using state and federal funding so no changes to the awarding process was necessary.	
Grant agreements are clear, specific, and meet ARRA requirements. Such as, site visits, administrative costs, interest, progress reports, budgets, modifications, record retention policy, match, list of ineligible expenditures, notification of possible audit)	Y	Updated grant agreements in order to capture the new ARRA requirements. The new grant agreements are clear and specific in order to meet the ARRA requirements.	
Measures in place to ensure contractors and grantees are paid within 30 days of invoicing	Y	Currently have the measures in place to ensure that invoices are paid in less than 30 days. They feel confident that the additional workload will not affect these measures.	
Department is requiring specific ARRA required data elements to be tracked (jobs created/saved, project status info, etc.)	Y	The grant agreements require the collection and reporting of the ARRA required data elements. The grant agreements include language which allows the SWRCB to make necessary amendments upon request of the USEPA in order to meet continuously changing ARRA reporting requirements.	
Certification letters are required by applicant	Y	Certification letters have been created and are required by applicants.	
Coordinating with other entities for programs with similar goals and purpose to reduce duplication of funding	Y	ARRA funds flow through the SWRCB, and were not awarded directly to recipients. Thus, this reduces the opportunity for duplication of funding. Also, the duplication of funding is addressed in their grant agreements.	
Working with grantees to develop performance measures	Y	All SWRCB programs receiving ARRA funding have been established for many years. Performance measures are already required by prior federally funded projects.	
Performing risk assessments and/or audits on recipients awarded ARRA funds	Y	A risk assessment has been completed and a ranking of projects has been completed. Due to the fact that the SWRCB currently awards state and federal funds, the review infrastructure is already in place.	
Reporting Requirements			
Aware and prepared to track ARRA funds separately	Y	Currently awards state and federal funds which require separate tracking. In addition, the grant agreements require the separate tracking of funds by the grantee.	
Department is prepared to track and report on jobs created/saved	Y	The grant agreement has been modified to require grantees to track and report on the number of jobs created/saved. The grant agreement also states that this job data may be required to be reported more frequently if reporting requirements change.	
Established a communication method with the federal agency to transmit reporting data promptly	Y	Uses the same IT system as the USEPA and currently reports project data to the USEPA. The IT system is capable of collecting the additional reporting requirements.	
Mechanism in place to ensure all data is reviewed for accuracy prior to reporting	Y	Has policies and procedures in place to review data elements for accuracy as it is reported by grantees. The grant agreement requires a review to determine the accuracy of reported data if needed.	

	Expectation Met	Comments	10 Day Corrective Action Plan
IT system prepared and capable of capturing required data elements	Y	Has an IT system - Loans and Grants Tracking System - in place, ready and capable of capturing the required data elements.	
Transparency			
Website is informative, clear, and user friendly	P	The webpage was created to provide information about the SWRCB available projects, but the page was difficult to locate and it did not report the required data elements. The SWRCB will create an ARRA link on their webpage and will add charts and graphs to report expenditure and measurable elements of the ARRA funds.	The State Water Board will address the corrective action plan to 1.) create a link on the State Water Board webpage to directly access an existing State Water Board ARRA website; 2.) enhance existing financial assistance link on the State Water Board website for visibility; 3.) develop charts and graphs for posting on the State Water Board ARRA website to provide available project information and meet the reporting data element requirements; 4.) restructure the State Water Board ARRA website for users to easily access ARRA information including potential ARRA funding projects and actual ARRA funded project tracking report. The State Water Board will implement the action plan by June 15, 2009.
Challenges Identified by Department			
During the readiness interview, department staff identified concerns		ARRA has more reporting and accountability requirements than prior federal funded projects.	
		Federal guidelines and data element reporting requirements are continuously changing.	

Tickmarks:

Y = Yes. The expectation is being met.

P = Partial. The expectation is being partially met.

N = No. The expectation is not currently being met.

N/A = Not applicable.