DEPARTMENT OF FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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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 loose 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,

David Botelho, Chief
Office of State Audits and Evaluations

Department of Transportation
Readiness Review Table

Overall Assessment: The Department of Transportation (Caltrans) has significant experience managing federal funds. This experience has facilitated Caltrans' preparation for receipt, expenditure and oversight of American Recovery and Reinvestment Act (ARRA) funds.

Recommendation: Provide the California Federal Economic Stimulus Task Force with the federal Department of Transportation (DOT) explicit approval of the use of ARRA funds for administrative costs and clarification of Caltrans' responsibilities for oversight of ARRA funds awarded directly to localities.

	Expectation Met	Comments
Oversight and Fraud Prevention		
Knowledgeable about departmental oversight responsibility	Y	Knowledgeable about their oversight responsibility over funds going directly to the department.
Clear guidance has been received from federal agency on departmental oversight roles and responsibilities for funds provided directly to localities	N	Has not received clear guidance on their oversight responsibility for funds awarded directly to localities.
Departmental risk assessments prepared and ARRA risks are addressed	N	Although the risk assessment was requested, it was not provided to us. Federal Highway Administration performs an annual program reviews.
Communication with federal oversight agency	Y	Almost daily communication with federal DOT representatives.
Administrative costs established with federal oversight agency	N	Stated they have not received any direct guidance from the federal DOT. However, Caltrans provided a link from the federal Recovery Accountability and Transparency Board which states "the calculation and tracking of overhead costs should follow existing agency practice or guidance an agency develops for its Recovery-related activities." When asked what existing overheard costs are, Caltrans did not provide us a response within the allotted time.
Fraud awareness training	Y	ARRA specific fraud awareness training is provided to staff.

	Expectation Met	Comments
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)	Y	GAO issued a report (GAO-09-580) dated April 2009. In the report, GAO provided general recommendations, such as, additional guidance from federal agencies is needed for local and state entities.
Tracking system in place to address prior audit findings	P	The Chief of Internal Audits provided a corrective action plan for the Single Audit findings. However, no corrective action plan was provided for the Department of Finance's report titled Amtrak's Oakland Maintenance Operations dated 6/18/08.
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		
Recipient training	Y	Workshops provided to applicants throughout the state.
Competitive grants and fixed-price agreements	Y	Currently uses competitive awarding process for all state and federal funds and uses fixed price standard agreements.
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	Created and implemented new standard agreements requiring the reporting of the additional ARRA data elements.
Measures in place to ensure contractors and grantees are paid within 30 days of invoicing	Y	Due to Caltrans' experience with federal funds and measures already in place, Caltrans does not anticipate this being an issue.
Department is requiring specific ARRA required data elements to be tracked (jobs created/saved, project status info, etc.)	Y	Developed strict guidelines and requirements in their grant agreements requiring grantees to capture and report the required ARRA data elements.
Certification letters are required by applicant	Y	Certification letters have been created and are required prior to the disbursement of funds.

	Expectation Met	Comments
Coordinating with other entities for programs with similar goals and purpose to reduce duplication of funding	Y	Working with the Employment Development Department (EDD) to ensure that the number of jobs created/saved is accurately reported. Stated that funds going directly from the federal DOT to recipients are Urban projects and funds going from federal DOT to Caltrans are non-urban projects. Therefore, duplication of funding should not occur.
Working with grantees to develop performance measures	Y	Does include performance measurement requirements for all Proposition 1B and federal grant funds in their standard agreements.
Performing risk assessments and/or audits on recipients awarded ARRA funds	Y	Contracted with State Controller's Office (SCO) to provide additional audit capabilities for pre-award, post-award, interim, and completed project audits.
Reporting Requirements		
Aware and prepared to track ARRA funds separately	Y	Currently tracks state and federal funds separately. Staff is aware and prepared to track the ARRA funds separately. Caltrans uses their own accounting system (called Transportation Accounting Management System) to track expenditures.
Department is prepared to track and report on jobs created/saved	Y	Standard agreement language requires recipients capture this information. It will be repeated on Caltrans' website.
Established a communication method with the federal agency to transmit reporting data promptly	Y	Since Caltrans regularly receives data from grantees and reports on federally funded programs, the communication infrastructure is already in place.
Mechanism in place to ensure all data is reviewed for accuracy prior to reporting	Y	Mechanisms in place to review the data after it has been received from the grantee. Current federal grants awarded by Caltrans require the capture of reportable data.
IT system prepared and capable of capturing required data elements	Y	Uses an IT system which is capable of collecting the required data elements for ARRA reporting. It currently captures performance data for Proposition 1B and other federal projects.

	Expectation Met	Comments
Transparency		
Website is informative, clear, and user friendly	Y	Project status, data elements, manual/guidance, and project measurements are available on their public website.
Challenges Identified by Department		
During the readiness interview, department staff identified concerns		ARRA has more reporting and accountability requirements than prior federally funded projects.
		Continuous updates of federal guidelines and required data elements subsequent to project funding.
		The department is aware of their responsibility over state funds. However, the question remains over funds given directly to localities by the federal government.
		State and federal audit coordination is needed to prevent duplication of efforts.

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.

California Energy Commission
Readiness Review Table

Overall Assessment: The California Energy Commission (CEC) is not sufficiently prepared to receive, expend and provide oversight for the American Recovery and Reinvestment Act (ARRA) funds. At the date of this review, CEC had not completed administrative tasks necessary for managing the ARRA funds, including drafting procedures, creating grant agreements, and developing an IT system to capture required data elements.

Recommendation: The CEC should assess their current resources to determine adequate capacity to manage the large increase of funding and reporting requirements of the ARRA funds. While awaiting guidance from the federal Department of Energy (DOE), the CEC should initiate efforts to develop guidelines, standard grant agreements, and an enhanced IT system. The CEC should submit an accountability and oversight report to the California Federal Economic Stimulus Task Force prior to awarding ARRA funds.

	Expectation Met	Comments
Oversight and Fraud Prevention		
Knowledgeable about departmental oversight responsibility	Y	Knowledgeable about their oversight responsibility over funds going directly to the department.
Clear guidance has been received from federal agency on departmental oversight roles and responsibilities for funds provided directly to localities.	N	Has not received clear guidance on their oversight responsibility for funds awarded directly to localities.
Departmental risk assessments prepared and ARRA risks are addressed	N	Although the risk assessment was requested, it was not provided to us.
Communication with federal oversight agency	Y	Frequent discussions with their federal DOE contact. CEC staff recently attended the DOE ARRA workshop in Los Angeles.
Administrative costs established with federal oversight agency	N	Waiting for additional guidance from the federal DOE.
Fraud awareness training	N	Still in the discussion stages.

	Expectation Met	Comments
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	P	2007 FISMA report was submitted. However, no corrective action plan was 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 outstanding findings from the Single Audit, Bureau of State Audits, and the Department of Finance.
Submitted California Strategic Growth Plan—Bond Accountability Plans	N/A	Did not receive any California Strategic Growth Plan Infrastructure Bond funds. Therefore, a California Strategic Growth Plan was not required
Grants Management and Accountability		
Recipient training	N	Plan to hold regional workshops once the recipients have been selected, but no training was provided as of April 20, 2009.
Competitive grants and fixed-price agreements	N	Understands the requirements, but the contract awarding process is still in the discussion stage awaiting guidance from the federal DOE.
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)	N	Contracts are still in discussion stage. They are waiting for guidance from the federal DOE.
Measures in place to ensure contractors and grantees are paid within 30 days of invoicing	N	Although we requested documentation on the measures in place to ensure grantees are paid timely, it was not provided to us.

	Expectation Met	Comments
Department is requiring specific ARRA required data elements to be tracked (jobs created/saved, project status info, etc.)	N	Understands the requirements for tracking specific data elements, but the contracts have not been developed.
Certification letters are required by applicant	N	Understands the requirements, but the certification letters and requirements have not been developed.
Coordinating with other entities for programs with similar goals and purpose to reduce duplication of funding	Y	Working with Community Services and Development Department for the Department of Energy Weatherization Assistance Program. Also, working with the Employment Development Department (EDD) to ensure that the number of jobs created/saved is accurately reported. CEC staff are also coordinating efforts with other state departments such as the Department of General Services, California Public Utilities Commission, Air Resources Board, and others.
Working with grantees to develop performance measures	N	Performance measures will be included in the ARRA funded standard agreements; however, the agreements have not been developed.
Performing risk assessments and/or audits on recipients awarded ARRA funds	N	Awaiting information from the federal DOE before recipients have been selected. Therefore, no risk assessments have been completed.
Reporting Requirements		
Aware and prepared to track ARRA funds separately	N	Stated that staff is aware of the need to track ARRA funds separately, but it is not known whether specific accounting codes have been created because the CEC did not provide the documentation within the allotted time.
Department is prepared to track and report on jobs created/saved	N	Staff is awaiting direction from the federal DOE regarding monitoring and tracking job creation.
Established a communication method with the federal agency to transmit reporting data promptly	N	Unable to determine because they did not provide information about their communication method within the allotted time.

	Expectation Met	Comments
Mechanism in place to ensure all data is reviewed for accuracy prior to reporting	N	Stated that the staff is awaiting direction from the federal DOE. They have not created any specific mechanisms for ensuring data accuracy.
IT system prepared and capable of capturing required data elements	N	Stated that it does not have an IT system capable of capturing the required ARRA data elements.
Transparency		
Website is informative, clear, and user friendly	P	Although their website has numerous useful links and information, it does not have applicant information, draft guidance, or required project data elements.
Challenges Identified by Department		
During the readiness interview, department staff identified concerns		Stated that they will be "hard-pressed to meet obligation deadlines" because they are already 4 months into the time schedule and they are still waiting for direction from the federal DOE. Furthermore, CEC estimates that they will not receive the ARRA funds until mid July 2009.
		The department is aware of their responsibility over state funds. However, the question remains over funds given directly to recipients by the federal government.

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.

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
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.

	Expectation Met	Comments
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 accountabilty plans to the Department of Finance.
Grants Management and Accountability		
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.

	Expectation Met	Comments
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.
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.

	Expectation Met	Comments
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.
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.

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N/A = Not applicable.

Department of Community Services and Development
Readiness Review Table

Overall Assessment: Despite the Community Services and Development Department's (CSD) efforts to ensure readiness for the American Recovery and Reinvestment Act (ARRA) funds, its environment prohibits the determination of full readiness. CSD's experience with managing federal programs in general, and specifically the ARRA funded programs, indicates they are well qualified to receive, expend and oversee ARRA funds. Further, CSD has been proactive in identifying high-risk grantees, developing training and technical advice (T&TA), and preparing its staff. However, CSD is vulnerable to significant risks that are outside the span of their control. A likely requirement to comply with the Davis-Bacon Act, and the lack of administrative funding for the Community Services Block Grant (CSBG) grants may negatively impact their ability to comply with ARRA requirements.

Recommendation: We recommend CSD work with program stakeholders to comply with the Davis-Bacon Act requirements in their Weatherization Assistance Program (WAP). CSD should continue efforts to mitigate the lack of administrative funds for their CSBG. CSD should conduct a self-assessment of their program and fiscal activities that relate to their ARRA responsibilities and add all ARRA related requirements to their standard agreements. Finally, CSD should review their policy of providing advance funding to ARRA grantees without a needs based criteria for approval.

	Expectation Met	Comments
Oversight and Fraud Prevention		
Knowledgeable about departmental oversight responsibility	**P**	Knowledgeable about their oversight responsibility. ARRA funding to be disbursed through existing programs. However, the CSD previously had a federal exemption to the prevailing wage law (Davis-Bacon Act) for the Weatherization Assistance Program (WAP). The CSD will likely loose the exemption and will be required to comply with the Davis-Bacon Act. This would significantly impact CSD's ability to provide oversight, due to the lack of experience in prevailing wage law within WAP. In addition, the lack of administrative funds for the Community Service Block Grant (CSBG) grant may limit CSD's audit coverage and monitoring capabilities. These issues are further addressed below under the Challenges Identified by the Department.
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	**N**	Has not conducted a formal self-assessment of risks related to their ARRA responsibilities.

	Expectation Met	Comments
Communication with federal oversight agency	Y	Weekly meetings with all staff involved in ARRA funding are held. Daily communication with federal oversight agency.
Administrative costs established with federal oversight agency	Y	The federal oversight agency is allowing CSD 5 percent in administration costs with ARRA funds for the Healthy Homes and Lead Hazard Control (HHLHC) grants and WAP. However, no administration costs are allowed for the CSBG.
Fraud awareness training	P	Reserved funding (not ARRA funding) for federal training opportunities for both program and fiscal staff, but no training was provided as of the date of this review.
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	N	Did not submit their 2007 FISMA report.
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. 10 of 11 prior audit findings have been corrected and closed. Single Audit identified one finding, which was fully corrected.
Submitted California Strategic Growth Plan—Bond Accountability Plans	N/A	Did not receive any California Strategic Growth Plan Infrastructure Bond funds. Therefore, a California Strategic Growth Plan was not required to be submitted.
Grants Management and Accountability		
Recipient training	Y	Federal oversight agency offers webinars (mandatory requirement for grantees), CSD program and fiscal staff host quarterly meetings, audit staff conduct training on various topics (overhead calculation, internal controls, allowable costs, etc.).
Competitive grants and fixed-price agreements	P	For HHLHC grants only four applicants applied, and all four were awarded some ARRA funding. For the CSGB and the WAP, the federal agency annually allocates to states based on a formula-based grant set in federal law, which is not competitive. No service contracts, thus fixed-price agreements are not applicable.

	Expectation Met	Comments
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)	N	Waiting for specific guidance from their federal oversight agency on ARRA contract/grant agreement language that needs to be added to their standard agreements.
Measures in place to ensure contractors and grantees are paid within 30 days of invoicing	Y	Currently averages 2 weeks for payments to grantees after receiving the invoice.
Department is requiring specific ARRA required data elements to be tracked (jobs created/saved, project status info, etc.)	P	Waiting for guidance from their federal oversight agency. However, CSD is prepared to track existing program data required (number of homes weatherized, etc.)
Certification letters are required by applicant	P	Standard federal certifications are being used, but have not been revised to include ARRA specific language.
Coordinating with other entities for programs with similar goals and purpose to reduce duplication of funding	P	Coordination with California Energy Commission, California Public Utilities Commission, California Work Investment Board, Employment Development Department and California Department of Social Services. No specific guidance written in the agreements to minimize the risk of duplicate funding from various sources.
Working with grantees to develop performance measures	N	Waiting for guidance from their federal oversight agency to determine performance measures.
Performing risk assessments and/or audits on recipients awarded ARRA funds	Y	Reviewing prior audit reports and corrective action plans for all ARRA funded grantees. Grantees that are deemed high risk will be further evaluated and early desk audits conducted to ensure they will meet all ARRA requirements.
Reporting Requirements		
Aware and prepared to track ARRA funds separately	Y	Aware of the requirement and stated they are able to separately track funding.
Department is prepared to track and report on jobs created/saved	N	Waiting for guidance from their federal oversight agency.

	Expectation Met	Comments
Established a communication method with the federal agency to transmit reporting data promptly	Y	Existing automated system is already in place.
Mechanism in place to ensure all data is reviewed for accuracy prior to reporting	Y	CSBG subcontractors report data electronically, CSD manually aggregates the data. Field representatives and CSD program staff review data on a flow basis. Low Income Energy Assistance Program (LIHEAP) and Lead-based paint Hazard Control Program (LHCP) is validated on a flow basis, various metrics used to test for consistency. Regular and annual substantive review prior to reporting to the federal oversight agency.
IT system prepared and capable of capturing required data elements	Y	Several existing automated systems in place capable of capturing the required data elements.
Transparency		
Website is informative, clear, and user friendly	Y	Website is very informative, clear, and user friendly.
Challenges Identified by Department		
During the readiness interview, department staff identified concerns		High likelihood that Davis-Bacon Act will apply to the WAP program. Significant risks identified: (1) Higher salary costs will reduce the number of homes that can be weatherized, (2) Political/Policy issues will disrupt state and local implementation of the WAP, (3) Organized labor will impact sub-grantee operations and capabilities, (4) CSD has no prior experience implementing the requirements of the Davis-Bacon Act due to existing exemption, (5) Potential for labor related lawsuits for the CSD or their sub-recipients.
		CSBG provides $90 million in ARRA funding but does not provide any funds for administrative cost. CSD is concerned about how they will be able to provide oversight, administration, and audit coverage without the funding for admin costs they normally receive (typically 5 percent of federal grant amount).

Tickmarks:

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N = No. The expectation is not currently being met.
N/A = Not applicable.

Governor's Office of Planning and Research
Readiness Review Table

Overall Assessment: The oversight roles need to be clarified and coordinated between the federal and state entities. The Office of Planning and Research (OPR) will pass through funding to California Volunteers (CV) and Office of the Secretary of Education (OSE). CV is ready to receive, expend and oversee American Recovery and Reinvestment Act (ARRA) funding. CV has significant experience in administering federal grants and complying with the associated regulations. Further, their ARRA funding is being disbursed through existing programs, and they have been proactive in identifying and addressing their fiscal and programmatic risks. OPR/OSE considers themselves simply as a pass-through entity with limited control or oversight via an interagency agreement prepared by OPR over the ARRA funds going to the California Department of Education (CDE), the California Department of Corrections and Rehabilitation (CDCR), The University of California (UC), and the California State University (CSU).

Recommendation: Since these relationships are complex, all expectations and responsibilities should be clearly communicated among the participating organizations. In addition, OPR should confirm in writing their oversight and reporting requirements as a pass through entity with their federal oversight agency. Furthermore, OPR/OSE should clearly define in their interagency agreements each ARRA related requirements and expectations of the implementing departments.

	Expectation Met	Comments
Oversight and Fraud Prevention		
Knowledgeable about departmental oversight responsibility	**P**	CV is knowledgeable about their oversight responsibility. However, OPR considers themselves as a pass through entity. Therefore, responsibilities need to be clearly communicated in the interagency agreements currently being drafted by OPR.
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	**P**	CV - Not formally. However, CV has made significant progress in identifying and correcting risks that would impact ARRA funding. OPR/OSE - did not provide a risk assessment.
Communication with federal oversight agency	**Y**	Constant contact with their federal oversight agency.
Administrative costs established with federal oversight agency	**P**	OPR is waiting for additional guidance from the federal oversight agency. CV has received guidance from their federal oversight agency.

	Expectation Met	Comments
Fraud awareness training	P	CV—Annual conference covers fraud training. OPR/OSE—will place reliance on departments that will implement their ARRA program.
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	P	OPR Submitted their 2007 FISMA in March 2009. Follow up meeting to be scheduled with the director in May 2009.
ARRA review performed in April 2009 by Government Accountability Office (GAO)	Y	GAO issued a report (GAO-09-580) dated April 2009. In the report, GAO provided general recommendations, such as, additional guidance from federal agencies is needed for local and state entities.
Tracking system in place to address prior audit findings	Y	Tracking system is in place. CV had a prior BSA single audit. 1 of 3 findings corrected. In addition, CV has signed an interagency agreement with the Office of State Audits and Evaluations that may assist in correcting the remaining two findings.
Submitted California Strategic Growth Plan—Bond Accountability Plans	N/A	Did not receive any California Strategic Growth Plan Infrastructure Bond funds. Therefore, a California Strategic Growth Plan was not required to be submitted.
Grants Management and Accountability		
Recipient training	P	CV—Multiple conference calls with grantees. Grantees to participate in federally funded annual conference in June. Supplemental ARRA specific training requested for July. OPR/OSE will not provide any training to recipients.
Competitive grants and fixed-price agreements	Y	Grantees have been selected based upon federal guidelines.
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)	P	CV is currently updating the contract language to conform to ARRA guidance. OPR/OSE is still drafting their interagency agreement.

	Expectation Met	Comments
Measures in place to ensure contractors and grantees are paid within 30 days of invoicing	Y	CV—Does not anticipate a problem. Weekly processing of payments.
Department is requiring specific ARRA required data elements to be tracked (jobs created/saved, project status info, etc.)	Y	Following federal oversight agency's guidance published thus far.
Certification letters are required by applicant	N	CV and OSE—Certification letter are not currently included in all interagency agreements and grant agreements.
Coordinating with other entities for programs with similar goals and purpose to reduce duplication of funding	Y	OSE is coordinating with UC, CSU, CDCR, CDE, and OPR. CV is coordinating with OPR and AmeriCorps.
Working with grantees to develop performance measures	Y	Based upon guidance from federal oversight agency.
Performing risk assessments and/or audits on recipients awarded ARRA funds	Y	CV—As a standard practice CV monitors grantees in the following areas: Fiscal compliance, results of desk reviews, results of audits, past performance, compliance with due dates, and responsiveness to corrective action plans. High risk grantees are more closely monitored and provided additional training and technical advice as needed. OPR/OSE—Not applicable since four recipients were already selected.
Reporting Requirements		
Aware and prepared to track ARRA funds separately	Y	Aware and prepared to track ARRA funds separately.
Department is prepared to track and report on jobs created/saved	P	CV—Not a jobs creation program. Collection of jobs data not a likely requirement, but CV plans to seek guidance from their federal oversight agency. OPR/OSE—No guidance yet from federal oversight agency.
Established a communication method with the federal agency to transmit reporting data promptly	P	CV—Existing programmatic and fiscal communication channels. OPR/OSE—We recommend the interagency agreement require departments establish communication method with grantees and OPR/OSE.

	Expectation Met	Comments
Mechanism in place to ensure all data is reviewed for accuracy prior to reporting	N	CV—Unclear what the requirements will be from federal oversight agency. Grantees may be required to report directly, if so CV plans to reconcile the data. CV has asked for guidance in this area from their federal oversight agency. OPR/OSE should develop appropriate measures to ensure grantees and implementing departments review data for accuracy prior to reporting.
IT system prepared and capable of capturing required data elements	P	CV—Federal oversight agency will provide a system for CV to use. OPR/OSE—should confirm that their implementing departments have the capability of capturing and reporting required data elements.
Transparency		
Website is informative, clear, and user friendly	N	CV has ARRA related information under their grants page. OPR does not currently have ARRA specific information available on their website. OSE has ARRA related information on their homepage. Effort should be coordinated to insure all required data is accurately reflected on the individual websites and agrees with the Recovery.ca.gov data.
Challenges Identified by Department		
During the readiness interview, department staff identified concerns		State and federal audit coordination is needed to prevent duplication of efforts.
		Continuous updates of federal guidelines and required data elements subsequent to project funding.

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.

Employment Development Department
Readiness Review Summary Table

Overall Assessment: The Employment Development Department's (EDD) ongoing efforts to identify and mitigate programmatic and fiscal risks coupled with their experience managing federal funds has helped the department prepare for their ARRA related responsibilities.

Recommendation: Additional data should be provided on EDD's homepage to inform the public of the amount and purpose of EDD's ARRA funding, as well as clarification on EDD's oversight and data collection responsibility over ARRA funding provided to other departments or local agencies. Further, EDD should review the language included in their grant agreement to ensure it addresses all ARRA requirements. Finally, EDD should obtain grantee signatures for all amendments to grant agreements.

	Expectation Met	Comments
Oversight and Fraud Prevention		
Knowledgeable about departmental oversight responsibility	Y	Knowledgeable about their oversight responsibility over state funds.
Clear guidance has been received from federal agency on departmental oversight roles and responsibilities for funds provided directly to localities.	N	Has not received clear guidance on their oversight responsibility for funds awarded directly to localities.
Departmental risk assessments prepared and ARRA risks are addressed	Y	Ongoing risk assessments are performed by each branch.
Communication with federal oversight agency	Y	Daily interaction with their federal oversight agency.
Administrative costs established with federal oversight agency	N	Waiting for additional guidance from the federal oversight agency.
Fraud awareness training	Y	Prepares an annual *Fraud Deterrence and Detection Activities* report for the state legislature. Maintains a fraud hotline. Staff receive fraud training. Fraud indicators have been identified and are being monitored.

	Expectation Met	Comments
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. Implemented a comprehensive and thorough risk mitigation program.
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 and the status of the corrective action plans are reported quarterly to department's management.
Submitted California Strategic Growth Plan—Bond Accountability Plans	N/A	Did not receive any California Strategic Growth Plan Infrastructure Bond funds. Therefore, a California Strategic Growth Plan was not required to be submitted.
Grants Management and Accountability		
Recipient training	Y	Preexisting delivery system that utilizes both state and federal training channels to implement required Workforce Investment Act (WIA) training. For the the Unemployment Insurance ($25 increase in unemployment check), training is not necessary.
Competitive grants and fixed-price agreements	Y	85 percent of funding is allocated based upon preexisting formulas. The remaining 15 percent may be awarded competitively based upon funding priorities, mass layoff, plant closure, or disaster. Department will present their funding recommendations to the Administration.
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)	N	ARRA required language not currently present in WIA subgrantee agreement. The agreement does not clearly and specifically address ARRA funding, accountability, reporting, and transparency requirements for the subgrantee. In addition, the agreement did not detail enforcement provisions. Finally, the agreement was unilaterally amended by the department without requiring the subgrantees signature. The agreement may therefore lack enforceability and legal recourse if the grantee fails to abide by the agreement terms and conditions.

	Expectation Met	Comments
Measures in place to ensure contractors and grantees are paid within 30 days of invoicing	Y	Due to the department's experience with federal funds and measures already in place, not anticipated as an issue.
Department is requiring specific ARRA required data elements to be tracked (jobs created/saved, project status info, etc.)	N	Waiting for guidance from the federal oversight agency. Clarification and additional guidance on which departments will be tracking performance measures to prevent duplicate reporting (i.e. jobs created, etc.) and who has oversight responsibility is needed.
Certification letters are required by applicant	N	Certification letters are not required in their agreements.
Coordinating with other entities for programs with similar goals and purpose to reduce duplication of funding	P	Attends ongoing strategy sessions with other state departments including: Department of Transportation, California Energy Commission, Air Resource Board, Department of Water Resources, Community Services and Development Department. Daily update to Governor's Task Force. No specific guidance written in the agreements to minimize the risk of duplicate funding from various sources.
Working with grantees to develop performance measures	Y	Job placement rates, income, employment duration are being tracked.
Performing risk assessments and/or audits on recipients awarded ARRA funds	Y	Program and fiscal reviews conducted once per year. Grantees are required to implement corrective action plans for any findings. Site visits to begin August 2009.

	Expectation Met	Comments
Reporting Requirements		
Aware and prepared to track ARRA funds separately	**Y**	Job Training Act (JTA) system being used to capture data for reporting.
Department is prepared to track and report on jobs created/saved	**N/A**	Workforce Investment Act (WIA) does not currently have performance measures for job creation as the funds are spent for training and employment services. The ARRA monies going into the One-Stop Career Center system are focused on the development of job skills and job placement and retention. The current three performance measures are post-program: Entered Employment, Employment Retention, and Average Wages.
Established a communication method with the federal agency to transmit reporting data promptly	**Y**	Reporting through existing JTA system.
Mechanism in place to ensure all data is reviewed for accuracy prior to reporting	**Y**	There is a mechanism in place to ensure all data is reviewed.
IT system prepared and capable of capturing required data elements	**Y**	JTA system is modifiable and the department has experience implementing modifications to the system to meet new federal reporting requirements if necessary.
Transparency		
Website is informative, clear, and user friendly	**N**	Lacks specific ARRA related material on their website. Such as, ARRA funding amounts, purpose, and progress with links to specific ARRA related guidance and press releases.
Challenges Identified by Department		
During the readiness interview, department staff identified concerns		Audit work should be coordinated between State and Federal auditors to prevent duplication of efforts over ARRA funds.

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