

## 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

February 2010 Letter Report 2009-119.2



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February 2, 2010

Letter Report 2009-119.2

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

Dear Governor and Legislative Leaders:

This letter report presents a review conducted by the Bureau of State Audits (bureau) concerning the preparedness of the Department of Community Services and Development (Community Services) to receive and administer American Recovery and Reinvestment Act of 2009 (Recovery Act) funds awarded by the U.S. Department of Energy (Energy) for its Weatherization Assistance for Low-Income Persons (Weatherization) program and Recovery Act funds awarded by the U.S. Department of Health and Human Services for its Community Services Block Grant (Recovery Act Block Grant) program. On February 17, 2009, the federal government enacted the Recovery Act for purposes that include preserving and creating jobs; promoting economic recovery; assisting those most affected by the recession; investing in transportation, environmental protection, and other infrastructure; and stabilizing state and local government budgets. The Recovery Act also states that the funds authorized should be spent to achieve the Recovery Act's purposes as quickly as possible, consistent with prudent management. See the Appendix for details of how Community Services ranks in managing the two programs reviewed in this letter report.

According to Community Services, as of December 1, 2009, no homes had been weatherized using Recovery Act funds even though by July 28, 2009, Energy had made available nearly \$93 million of the \$186 million awarded to Community Services and the Legislature had appropriated the funds for use. To gain access to the remaining \$93 million awarded it, Community Services has until September 30, 2010, to meet certain performance milestones issued by Energy. However, delays in program implementation make it unlikely that Community Services will attain the performance milestones. Start-up of the Weatherization program has been delayed because federal oversight agencies and Community Services have not yet completed necessary tasks. For example, the U.S. Department of Labor (Labor) did not provide prevailing wage determinations for weatherization workers, as required by the Recovery Act, until September 3, 2009, and did not revise the wage rates for some workers until December 2009. In addition, Community Services has not developed the cost-effective measures to weatherize homes using the Recovery Act funds, has been slow in negotiating agreements with service providers that cover grant terms such as cash management, and has not developed procedures for monitoring the additional requirements service providers must comply with when using Recovery Act funds.

Increases in the average cost for weatherizing a home will likely reduce the estimated number of eligible low-income persons Community Services can assist using Recovery Act funds. According to Community Services, the main factor that has increased the estimated cost to weatherize a home is the requirement that service providers pay workers the prevailing wage rates for the area specified by the federal Davis-Bacon Act. According to Community Services, prior to the Recovery Act contractors who provided weatherization assistance were exempted from paying

prevailing wages and would use funding from multiple federal programs. In addition, the requirements of the Recovery Act to pay prevailing wages require contractors that use multiple funding sources to weatherize homes to compensate all workers—those funded by other federal sources and by Recovery Act funds—at the same prevailing wage rates. As a result, contractors may plan to perform Weatherization program services using only Recovery Act funds, further limiting the number of homes to be weatherized and increasing the average cost per home.

Community Services also needs to improve its procedures for managing federal cash for the Weatherization program. For example, it provides advance payments of up to 25 percent of a subrecipient's total grant award of Weatherization program funds, but did not furnish us its authority for providing such advance payments. Moreover, at the time of our review, Community Services' procedures allowed the same accounting personnel to both prepare claim schedules for the payment of invoices and draw the federal funds to pay those invoices, without any supervisory review. Failing to separate these duties heightens the risk that federal funds could be drawn in an incorrect amount or used for unallowable purposes and remain undetected.

As for the Recovery Act Block Grant program, Community Services has not fully developed or implemented procedures for monitoring subrecipients funded by the Recovery Act. Because the Recovery Act Block Grant requires that services be provided by September 30, 2010, and recipients must be paid by December 29, 2010, timely monitoring is important to ensure that the Recovery Act Block Grant funds are properly used. However, Community Services' current monitoring procedures are not always followed, and it has yet to develop or implement additional monitoring procedures to ensure supplemental Recovery Act requirements are being met by subrecipients.

Community Services told us it plans to use existing procedures, with some modification, to monitor the Recovery Act Block Grant funds. However, we reviewed its existing monitoring activities and found Community Services does not always follow its monitoring procedures and, as a result, does not sufficiently track its findings and corrective actions needed to address those findings. In addition, while the Recovery Act money will more than double the existing level of \$62 million in block grant funding for a total of \$151 million, Community Services is not prepared to address the additional Recovery Act monitoring requirements. It has not yet developed a timeline for completing its monitoring of Recovery Act Block Grant funds, identified the resources or designed a risk-based approach needed to carry out its monitoring activities, or developed a monitoring guide for new requirements.

As a result, Community Services may not monitor a large number of subrecipients until after Recovery Act Block Grant funds are already spent. Although the manager of program development and technical support told us that audit and accounting could take steps to recover any unallowable expenses, she did not explain what those steps would be.

Finally, Community Services needs to improve its procedures for managing the federal cash for the Recovery Act Block Grant. Federal cash management regulations allow for advance payments, but require that advances be timed as close to the actual cash disbursements by the subrecipients as possible. Community Services provides cash advances to its subrecipients if they can justify a financial hardship; however, Community Services has not defined what constitutes a financial hardship. Therefore, it cannot determine when a subrecipient has met the standard for financial hardship. Further, Community Services did not require supervisory review of draws of federal cash to ensure that federal funds were drawn in the correct amounts and from the correct grants. As a result, in April 2009 Community Services mistakenly drew \$180,000 from the Low-Income Home Energy Assistance Program grant that it should have drawn from the block grant.

### **Recommendations**

To ensure it receives the remaining 50 percent of its \$186 million award for the Weatherization program, Community Services should seek federal approval to amend its plan for implementing the Weatherization program and seek an extension from Energy for fulfilling the progress milestones. In addition, it should promptly develop and implement the necessary standards for performing weatherization activities under the program and develop a plan for monitoring subrecipients.

To comply with federal cash management rules that govern the use of Weatherization program funds, Community Services should ensure it has the authority to provide advances as outlined in its current policy and segregate the duties of preparing claim schedules requesting payments from the duties of accessing Weatherization program funds.

To strengthen its abilities to monitor Recovery Act Block Grant subrecipients, Community Services should do the following:

- Finalize the monitoring guide that focuses on the specific requirements of the Recovery Act.

- Create a timeline and develop a risk-based monitoring plan to ensure that subrecipients of block grant funds authorized by the Recovery Act are monitored in time to allow them to correct any findings and implement recommendations prior to the September 30, 2010, deadline for providing block grant services.
- Follow its procedures to track the results of monitoring subrecipients that will allow management to ensure findings of program noncompliance are promptly followed up by program staff and corrected by subrecipients.

To comply with federal cash management regulations that govern Recovery Act Block Grant funds, Community Services should define the financial hardship under which it will provide cash advances to subrecipients. In addition, Community Services should implement procedures to ensure that it accurately draws federal program funds from the correct grant.

## Background

On February 17, 2009, the federal government enacted the Recovery Act for purposes that include preserving and creating jobs; promoting economic recovery; assisting those most affected by the recession; investing in transportation, environmental protection, and other infrastructure; and stabilizing state and local government budgets. One general principle of the Recovery Act is that the funds be used to achieve its purposes as quickly as possible consistent with prudent management.

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

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

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

### Accountability Requirements for the Use of Recovery Act Funds

Accountability and transparency are the cornerstones of the Recovery Act. In its February 18, 2009, initial guidance for implementing the Recovery Act, the U.S. Office of Management and Budget (OMB) directed federal agencies to immediately take critical steps to meet the accountability objectives outlined in the text box. On April 3, 2009, the OMB updated its initial guidance to clarify existing provisions, such as those related to the mechanics of implementing the reporting requirements of the Recovery Act and to establish additional steps that must be taken to facilitate its accountability objectives. In addition to the guidance the

OMB issues, federal agencies responsible for administering Recovery Act programs provide guidance for states, local governments, and Indian tribes that use program funds or provide them to subrecipients.

The Recovery Act also established the Recovery Accountability and Transparency Board (Recovery Board) to coordinate and conduct oversight of federal agencies' handling of Recovery Act funds in order to prevent fraud, waste, and abuse. The Recovery Board's responsibilities include auditing or reviewing funds to determine whether wasteful spending, poor contract or grant management, and other abuses are occurring, as well as referring matters it considers appropriate for investigation to the inspector general for the federal agency that distributed the funds. The Recovery Board must also coordinate its oversight activities with the comptroller general of the United States (better known as the GAO) and state auditors.

The OMB provides guidance for conducting state and local audits of federal financial assistance programs, including those programs authorized or augmented by the Recovery Act. The Single Audit Act of 1984 established requirements for audits of states, local governments, and Indian tribes that administer federal financial assistance programs. The OMB provides program compliance requirements for recipients of federal financial assistance program funds and guidelines to assist auditors in performing required audits. For Recovery Act programs, this guidance is contained in the OMB's 2009 *Compliance Supplement to Circular A-133* and the June 30, 2009, *Addendum to the Compliance Supplement*.

### **California's Administration of the Weatherization and Recovery Act Block Grant Programs**

Community Services administers funds provided by the Recovery Act for the federal Weatherization program. The program is overseen by Energy and is designed to improve home energy efficiency for low-income families through the installation of weatherization materials such as attic insulation, caulking, weather stripping, furnace efficiency modifications or replacements, and air conditioners. Community Services provides Weatherization program funds to nonprofit organizations and local governments to perform weatherization assistance services.

#### **U.S. Department of Energy's Performance Measures to Assess Progress in Implementing the Weatherization Assistance for Low-Income Persons Program to Be Attained by September 30, 2010**

- Thirty percent of all units estimated to be weatherized in approved program plans are weatherized.
- Each grantee has fulfilled its monitoring and inspection protocol as part of its approved annual state plan.
- Each grantee is monitoring local agencies at least once each year to determine compliance with administrative, fiscal, and state field policies and guidelines.
- Local quality control efforts are in place.
- Grantees' progress reports are acceptable and submitted in accordance with grant requirements, including being on time and accurate.
- Monitoring reviews confirm acceptable performance.

Source: U.S. Department of Energy.

Community Services monitors the service providers for compliance with grant terms and conditions, and may take enforcement action against the subrecipients, including canceling a contract based on its audit findings. The Recovery Act designated a national total of \$5 billion for the Weatherization program, of which California was awarded almost \$186 million in April 2009. California's award is provided in three installments: the first two installments represented half of the award amount—\$18.6 million in April 2009 and \$74.3 million in June 2009. The remaining half, or \$93 million, will be available if the State demonstrates progress in implementing the program. Performance measures Energy will use to evaluate the State's progress in implementing the Weatherization program are presented in the text box on the previous page. According to the manager of the Field and Weatherization Services Unit, Energy has set a deadline of September 30, 2010, for meeting those milestones.

#### Objectives of the Community Services Block Grant

- Provide services and activities having a measurable and potentially major impact on causes of poverty in the community.
- Provide activities designed to assist low-income participants in ways such as to secure and retain meaningful employment; attain an adequate education; make better use of available income; obtain and maintain adequate housing and a suitable living environment; and obtain emergency assistance through loans or grants to meet immediate and urgent needs, including health services, nutritious food, housing, and employment-related assistance.
- Coordinate and establish linkages between governmental and other social services programs to assure the effective delivery of such services to low-income individuals.

Source: U.S. General Services Administration's *Catalog of Federal Domestic Assistance*.

The Recovery Act Block Grant provides assistance to states and local communities for the reduction of poverty, revitalization of low-income communities, and empowerment of low-income families and individuals to become fully self-sufficient. Additional general Community Services Block Grant objectives are presented in the text box. The Recovery Act Block Grant is overseen by the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services. Community Services is the State's lead agency for the block grant. In its role as lead agency, Community Services is responsible for ensuring that all applicable federal requirements are met and that the administrative requirements are clear and uniform.

The Recovery Act designated a national total of \$1 billion for the Recovery Act Block Grant, of which California was awarded \$89 million in April 2009. Community Services awarded the funds to subrecipients in the same proportions as other block grant funds using formulas contained in state law. It awards Recovery Act Block Grant

funds to the members of a network of community action agencies and other neighborhood-based organizations that provide block grant services. According to Community Services, it performs annual desk reviews and performs on-site audits of each service provider every three years and may take enforcement action against any service provider it finds has not complied with the grant terms and conditions.

These network member agencies and organizations are overseen by their individual governing boards. According to the terms and conditions of the block grant award, the Recovery Act requires that services be provided by September 30, 2010, and recipients be paid by December 29, 2010.

These awards of Recovery Act funds are significant expansions of the Weatherization and block grant programs. For federal fiscal year 2010, Community Services was awarded \$14.2 million in other funding versus \$186 million in Recovery Act funds for the Weatherization program and \$62 million in other funding for the Community Services Block Grant compared to \$89 million in Recovery Act Block Grant funds.

### **Executive Branch Oversight of Recovery Act Funds**

California provides guidance and oversight of state agencies' use of Recovery Act funds through entities such as the California Recovery Task Force (task force), the California Office of the Inspector General, and the Department of Finance. The governor created the task force in March 2009 through Executive Order S-02-09. The task force is led by the director of the Governor's Office of Planning and Research, and its responsibilities include ensuring that the State receives the optimal benefit from the Recovery Act, ensuring that the funds are used strategically and in a manner consistent with federal requirements, and providing accountability and transparency regarding the programs funded under the Recovery Act.

Further, in April 2009 the governor signed Executive Order S-04-09, creating the Office of the Inspector General, independent of the task force. According to the governor's executive order, the inspector general's responsibilities include protecting the integrity and accountability of the expenditure of Recovery Act funds by detecting and preventing fraud, waste, and misconduct in the use of those funds and conducting periodic reviews and audits to ensure that state and local governments comply with the federal requirements of the Recovery Act and state law. The Department of Finance, among other duties, serves as the governor's chief fiscal policy adviser and ensures the financial integrity of the State by issuing policy directives and by monitoring and auditing expenditures and internal controls of state departments to ensure compliance with the law, approved standards, and policies.

### Scope and Methodology

The Joint Legislative Audit Committee requested that the bureau conduct a review of California's preparedness to receive federal Recovery Act funds for selected programs. Using selection criteria contained in the audit request, we identified the Weatherization and Recovery Act Block Grant programs for review. To gain an understanding of each program's requirements, we obtained and reviewed federal and state laws, rules, regulations, and guidance from federal oversight agencies relevant to the programs and significant to the audit objectives. We also reviewed the Federal Register to determine whether the OMB, the U.S. Department of Health and Human Services, or Energy had proposed new regulations governing the use of Recovery Act funds as of December 21, 2009.

To gain an understanding of Community Services' design of internal controls over relevant and material compliance program requirements, we interviewed its management and staff and reviewed relevant documents. To determine the effectiveness of internal controls, we performed tests of transactions for the Weatherization and Recovery Act Block Grant programs, reviewed compliance with subrecipient agreements, and evaluated the effectiveness of internal control systems. In addition, we assessed the extent to which Community Services is prepared to receive and administer the funds. To achieve this objective, we interviewed key management and staff of Community Services and reviewed documents they provided to support the status of its preparedness. We primarily used program risk considerations and other program guidance developed by the OMB, the U.S. Department of Health and Human Services, and Energy; the terms and conditions attached to the federal grant awards; and each program's respective state plan to evaluate the requirements for receiving and administering the funds.

### Community Services Has Not Yet Disbursed Recovery Act Funds to Weatherize Homes

According to Community Services, as of December 1, 2009, no homes had been weatherized using Recovery Act funds even though by July 28, 2009, Energy had made available nearly \$93 million of the \$186 million awarded to Community Services and the Legislature had appropriated the funds for use. To gain access to the remaining \$93 million Energy awarded it, Community Services reports that it has until September 30, 2010, to meet certain performance milestones issued by Energy. However, delays in program implementation make it unlikely that Community Services will attain the performance milestones. Start-up of the

*Community Services is unlikely to meet certain performance milestones required to gain access to \$93 million.*

Weatherization program has been delayed because, until recently, a federal agency had not completed a task critical to the program and Community Services still has not completed all necessary activities. For example, Labor did not provide prevailing wage determinations for weatherization workers, as required by the federal Davis-Bacon Act, until September 3, 2009, and did not revise the wage rates for some workers until December 2009. In addition, Community Services has not developed the cost-effective measures its service providers can use to weatherize homes using the Recovery Act funds, has been slow in negotiating agreements with service providers regarding grant terms such as cash advances, and has not developed procedures for monitoring additional requirements service providers must comply with when using Recovery Act funds.

### **Federal Agencies' Delays Have Stalled Implementation of the Weatherization Program**

Delays in establishing minimum wage rates for weatherization workers and providing training by federal oversight agencies have stalled the implementation of the Weatherization program funded by the Recovery Act. The Davis-Bacon Act, which requires contractors and subcontractors for certain federally funded projects to pay their laborers no less than the prevailing wage rates as determined by Labor, did not apply to the Weatherization program until the passage of the Recovery Act. As a result, Labor had never before established classifications or prevailing wage rates for the Weatherization program workers.

Although the wage rates had not yet been determined, in July 2009 Energy advised the states to begin weatherization; however, it warned that if the prevailing wages were determined to be higher than the rates being paid, the contractors would be liable for any additional back pay. Energy also suggested that contractors use residential construction wage rates until the wage determinations were released. However, according to Community Services, the service providers and Community Services expected the prevailing wage rates to be lower than residential construction rates, and service providers were concerned that they would be unable to lower the workers' wage rates after Labor announced the rate determinations. According to Community Services' management, service providers were hesitant to begin weatherizing homes because they were unwilling to pay the much higher residential construction rates or to risk the potential liability of owing back pay after the prevailing wage rates were established.

*According to Community Services' management, service providers were hesitant to begin weatherizing homes because they were unwilling to pay the much higher residential construction rates or to risk the potential liability of owing back pay after the prevailing wage rates were established.*

On September 3, 2009, Labor announced the worker classifications and minimum wages that must be paid to California weatherization workers, but Energy did not provide guidance and training for preparing the payroll certifications necessary under the Davis-Bacon Act until October 7, 2009. Furthermore, Labor announced revised wage rates effective December 11, 2009, after it reexamined its initial announcement, in part because some states' service providers and contractors notified Labor of a number of inconsistencies in the rates. According to Community Services, the rates were too high in specific cases. For example, according to Community Services, the service providers felt that the hourly rate determination of \$62 per hour for heating, ventilation, and air conditioning workers for five California counties was excessive. In the revised rate announcement, Labor reduced the minimum rate for this classification in these counties to \$27 per hour.

Before a service provider can begin weatherizing homes, Community Services' policy requires each one to submit for approval its plan for complying with the prevailing wages established according to the Davis-Bacon Act and the payroll reporting requirements, including the compliance plans for any subcontractors that the service provider intends to use. Because some service providers may use subcontractors to perform portions of the weatherization work, they must also ensure that the subcontract complies with Davis-Bacon and must submit the subcontractor's Davis-Bacon Act compliance plan to Community Services for its approval. However, because Labor did not establish job classifications until September 2009 and did not finalize the wage rates until December 2009, and because Energy did not provide guidelines and training regarding the requirements of the Davis-Bacon Act until October 2009, Community Services could not approve either the service providers' or their subcontractors' plans for complying with the Davis-Bacon Act until very recently.

### **Community Services Has Executed Contracts With Only a Few Service Providers**

According to Community Services, part of the delay is the result of its inability to complete some tasks while it awaited federal guidance. For example, Community Services has not yet identified and received approval from Energy for the weatherization measures that are allowable under the program. On October 28, 2009, Community Services advised its service providers that they could begin accepting applications for weatherization assistance and performing assessments of the weatherization measures needed, but indicated that no weatherization work could begin because it had not yet established allowable weatherization measures

*On October 28, 2009, Community Services advised its service providers that they could begin accepting applications and performing assessments of the weatherization measures needed, but indicated that no weatherization work could begin.*

based on climate zones and the Weatherization program's cost effectiveness requirements. Community Services informed service providers that, until such weatherization measures were approved for the program using Recovery Act funds, they could assess weatherization needs using the standards established for the program before it received Recovery Act funds.

Community Services is currently testing a computer modeling program that it plans to use to develop a list of priority measures to ensure the weatherization activities for each home meet Energy's cost-savings benefit requirement. Service providers' weatherization crews will use the computer modeling program to assess each home's weatherization status and to determine what measures should be installed so that it can be cost-effectively weatherized. Community Services hopes to present the modeling program to Energy for approval within the next couple of months. Once the priority weatherization measures are developed and approved, Community Services will have a list of measures it can authorize to weatherize homes that are recognized by Energy as cost-beneficial without having to perform an energy audit to determine the cost-effective measures for each specific dwelling. According to Community Services management, once the service providers have signed their contracts and their plans to comply with prevailing wage requirements have been approved, they can begin weatherization activities using the standards established last year.

Community Services states that delays are partially the result of its inability to reach agreement with service providers on some issues. Meeting minutes from the Energy Council—a council made up of a representative group of service providers who meet monthly—indicate that subrecipients refused to sign the subgrant agreements unless certain conditions were resolved. For example, the meeting minutes include comments from service providers expressing frustration over what they referred to as huge amounts of time spent tracking information for Recovery Act reporting requirements. During the same meetings, service providers also stated that the allowed time for some weatherization activities was set by Community Services at less than half the time it takes to actually perform the task. One example cited was the time allowed to replace an exterior door, which according to service providers, was set at 30 minutes to an hour. However, according to the service providers, this task takes an average of 2.5 hours to complete. Additionally, service providers asserted that attic ventilation work takes an average of two hours, yet only one hour was allowed to perform the task. According to Community Services, this matter is now resolved because it is no longer imposing the time allowances.

***Subrecipients refused to sign the subgrant agreements unless certain conditions were resolved.***

Energy Council minutes also indicate that some service providers were having cash-flow difficulties and were not in agreement with a new cash advance policy established by Community Services that requires the service providers to liquidate cash advances over a shorter time period than was allowed in the previous year's agreement. Further, according to Community Services, the new Weatherization program requirements significantly increase the amount of training weatherization workers must attend within a specified time period; however, service providers were finding it hard to schedule such training. Community Services told us that it opened an additional training facility in December 2009 and that the two existing training centers have increased the number and frequency of classes offered to accommodate the increased demand.

Although no homes were weatherized as of December 1, 2009, Community Services had made progress in obtaining the necessary agreements with service providers. As of July 28, 2009, the Legislature appropriated the \$92.9 million that Energy had made available to Community Services, including \$16.3 million Community Services stated that it retained for the State's administrative costs and to provide training and technical assistance to service providers. Community Services' records show that of the remaining \$76.6 million available for service providers, it had awarded 36 grants totaling almost \$54.8 million. For these 36 grants, as of December 22, 2009, Community Services had fully executed contracts and approved the compliance plans for eight service providers, allowing them to begin weatherizing homes. In addition, although Community Services has approved compliance plans for eight additional service providers, it has not yet executed contracts for them. The remaining 20 service providers had not yet submitted their compliance plans and cannot begin weatherization activities.

***According to Community Services, it has not yet awarded the remaining \$21.8 million because of pending enforcement actions against three service providers and because it needs to make alternative arrangements for five geographical regions that are not currently represented.***

According to Community Services, it has not yet awarded the remaining \$21.8 million because of pending enforcement actions against three service providers and because it needs to make alternative arrangements for five geographical regions that are not currently represented. Community Services also reported that of the five areas not represented, two areas are the result of service providers opting out of their contracts. One service provider felt it would have difficulty complying with Recovery Act requirements such as the Davis-Bacon Act, and the other service provider opted out after Community Services identified findings during its audit of the service provider. According to Community Services, these two service providers are continuing to provide weatherization services under other federal programs. The Table shows the amount of Recovery Act funds awarded, obligated, and spent.

**Table****Weatherization Assistance for Low-Income Persons Program Funds Awarded, Obligated, and Spent as of December 28, 2009**

FEDERAL PROGRAM	PROGRAM'S CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	WEATHERIZATION PROGRAM FUNDS AWARDED TO COMMUNITY SERVICES	WEATHERIZATION PROGRAM FUNDS MADE AVAILABLE TO COMMUNITY SERVICES	AMOUNT COMMUNITY SERVICES AWARDED TO SERVICE PROVIDERS	TOTAL RECOVERY ACT WEATHERIZATION PROGRAM EXPENDITURES
Weatherization assistance for low-income persons	81.042	\$185,811,061	\$92,905,530	\$54,797,224*	\$2,489,049*

Source: Department of Community Services and Development.

\* Does not include outstanding cash advances.

Although it appears that Community Services may have addressed some of the service providers' concerns, the fact remains that as of December 22, 2009, it had executed contracts and approved compliance plans for only eight of the 36 service providers that were awarded Weatherization program grants. Therefore, few providers are ready to begin weatherizing homes in California, and even those few are not using the final weatherization measures yet to be completed by Community Services and approved by Energy for the Weatherization program using Recovery Act grant funds.

### **Community Services' Weatherization Program Is Unlikely to Attain the Performance Milestones Set by Energy**

Energy made available nearly \$93 million of the \$186 million awarded to Community Services, and the Legislature appropriated the funds for use on July 28, 2009; however, as of December 1, 2009, no homes had been weatherized using Recovery Act funds. To gain access to the remaining \$93 million Energy awarded it, Community Services reported that it has until September 30, 2010, to meet certain performance milestones issued by Energy. One significant milestone it must meet is to weatherize 30 percent of the total 50,080 homes (15,024 homes) in the State's approved plan for its Weatherization program—nearly the same number of homes that Community Services weatherized during the entire four-year period from 2005 through 2008 from Energy's previously existing Weatherization program.

In its state application plan for the Weatherization program submitted to Energy, Community Services estimated its service providers would weatherize a total of 50,080 homes at an average cost of \$1,938 per home. According to Community Services, the state plan's estimated cost of \$1,938 per home was based on previous averages of Weatherization funding spent toward weatherizing a home. However, Community Services also stated that the amount per home does not represent the average total cost

to weatherize a home because it does not include funds from other sources. On November 16, 2009, Community Services advised the service providers to use an average cost of \$3,500 per home when they prepare their revised local plans. According to the manager of its Field and Weatherization Services Unit, the \$3,500 average cost was a reasonable estimate by Community Services based on the likelihood that the number of weatherization measures allowed under the program will increase, the increase in the amount paid to workers based on the prevailing wages set by Labor, and the expectation that less funding from other federal programs will be used to pay for weatherization services.

Specifically, Community Services stated that several factors contribute to the increased cost per home attributable to the Weatherization program. Some of the increase is because more weatherization measures are allowed under the Recovery Act than was formerly the case. For example, service providers will be able to perform measures such as window replacement that could not have been done using the Weatherization program funding available in the past. The manager of the Field and Weatherization Services Unit noted that the increased Davis-Bacon prevailing wages required under the Recovery Act also contribute to the increased costs. Some of the increase is caused by using only Recovery Act funds to weatherize a home instead of the previous method of using multiple funding sources. Community Services noted that the initial average cost of \$1,938 to weatherize a home was based on the previous annual charges to the Weatherization program and the number of homes weatherized. However, due to the previous Weatherization program limitations, some weatherization measures were performed using other funding sources, such as the Low-Income Home Energy Assistance Program, and are not reflected in the \$1,938 average cost to the Weatherization program.

***If a service provider uses any Recovery Act funds on a project, all workers, even if they are not paid from Recovery Act funds, must receive prevailing wages established according to the Davis-Bacon Act's requirements.***

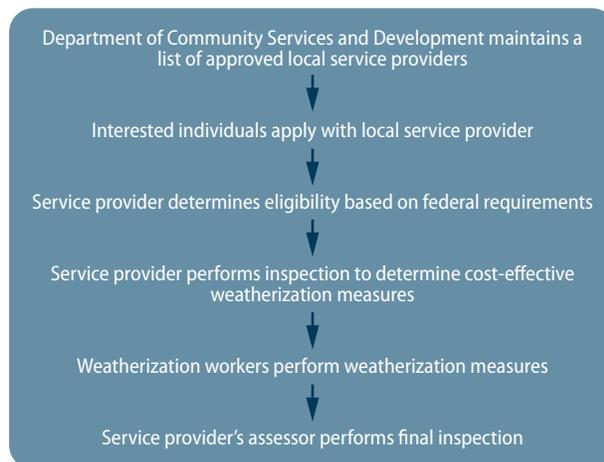
Community Services told us that, service providers are less likely to combine funds to weatherize a home now. For example, if a service provider uses any Recovery Act funds on a project, all workers, even if they are not paid from Recovery Act funds, must receive prevailing wages established according to the Davis-Bacon Act's requirements. As a result, service providers would have to pay workers higher Davis-Bacon Act rates than they might otherwise pay, thus inflating the contractors' cost of the work performed.

According to Community Services, to help it meet the goal which requires that service providers achieve 30 percent of their contract goals by September 30, 2010, it will renegotiate with them to assess a realistic capacity to expend the remaining funds. If Community Services determines that a service provider will be unable to expend the full amount of the contract before its contract expires, Community Services will redistribute the excess funds to an eligible

performing service provider within the same general geographical region, if available. If no other service provider is available in the general region, Community Services reserves the right to redistribute funds to another service provider within the State. Nevertheless, we question whether these measures will be sufficient to achieve the milestone of weatherizing 30 percent of these homes by September 30, 2010.

According to Community Services, it is conducting a survey of service providers the week of January 4, 2010, to obtain an estimate of the number of homes it believes it can weatherize, based on the updated cost figures, within the time frame Energy requires. If the survey indicates that Community Services needs to revise its state plan to show a reduction of the number of homes it can weatherize, it will discuss with Energy the process for adjusting the state plan. Community Services has also advised the service providers to submit revised local plans based on the increased average costs.

**Figure**  
**An Overview of the Weatherization Assistance Process**



Source: Adapted from U.S. Department of Energy's Web site.

Community Services must also demonstrate to Energy that it has an effective monitoring plan, complies with the required quarterly reviews of each service provider's performance, and conducts an on-site review of each subrecipient within a year. Although Community Services stated that it has a monitoring plan, it has not yet updated the plan to include additional areas of monitoring related to compliance with the Recovery Act's Davis-Bacon requirements. To meet the additional monitoring requirements, Community Services stated that it is currently in the process of hiring four additional staff. It is also in the process of contracting

with a private company to perform the mandated inspections of homes after they are weatherized. According to Community Services' management, it will update the monitoring plan to include Davis-Bacon Act requirements and expects to have it in place in a couple of months. The Figure on the previous page provides an overview of the weatherization assistance process.

### **Community Services Lacks Written Procedures for Preparing Weatherization Program Reports**

Although Community Services has implemented processes to ensure it keeps subrecipients updated on reporting requirements and instructions for completing required reports, it has not ensured that its internal processes for compiling subrecipients' reported information into program-wide reports are adequately documented. For example, Community Services lacks written policies and procedures for completing its federal financial reporting.

Because the information needed to prepare the reports is obtained from multiple sources, Community Services risks that it will be unable to submit complete and accurate reports in the time required in the absence of staff who know how to prepare the report.

Additionally, although Community Services does have written procedures for preparing quarterly financial reports, they do not reflect current reporting requirements and, as a result, contain outdated instructions that could allow errors to occur in these reports. In late November 2009, the accounting supervisor stated that he plans to meet with his staff to begin the process of creating written desk procedures.

Community Services also did not fully complete a required report to Energy for the reporting period ending September 30, 2009, because its move to a new location kept it from accessing the federal reporting system from October 2009 to December 2009. As a result of the incomplete report, job creation data reported through the State's Recovery Act Web site does not match information submitted to Energy. According to the chief of information technology, Community Services installed the necessary equipment in December 2009 to reestablish access to the federal reporting system.

Community Services reports that it successfully submitted its Recovery Act Section 1512 reporting data into the State's computer system. Although it had no weatherization activities to report, Community Services reported 81 jobs created or retained as a result of the training and technical assistance activities conducted by its

contractor and the service provider network's efforts to start up the Weatherization program. Community Services maintains an online blog to keep subrecipients informed of the Recovery Act's data capture and reporting requirements.

### **Community Services Needs to Improve Its Controls Over Cash Management for the Weatherization Program**

Community Services' cash management policy allows advances of Weatherization program funds to subrecipients without obtaining the required authorization. Our review of Community Services' records revealed that as of December 28, 2009, it had advanced about \$966,000 in Weatherization program funds to four subrecipients. Roughly \$748,000 of the advance is still outstanding, and \$99,000 has been outstanding for over 100 days. Federal regulations allow Community Services to provide cash advances to subrecipients for its Weatherization program under certain conditions. For example, Community Services and its subrecipients must follow procedures to ensure that the advances are made as close as possible to the time the subrecipient organization actually makes disbursements for direct program or project costs, as well as for allowable indirect costs. Community Services' policy allows a subrecipient to receive a cash advance of 25 percent of the total grant award by providing a listing of the expenses that will be paid using the advance and certifying it has no other source of funds available. Under Community Services' current policy, subrecipients are required to offset at least 30 percent of the cash advance against their expenditures within three months and the remaining balance within six months. If less than 100 percent of the advance is offset against expenditures within six months, Community Services will apply subsequent claimed expenses toward the cash advance beginning in the seventh month following issuance of the advance until the advance is fully extinguished.

Because of the extended period allowed by its current policy for liquidating advances, Community Services is not complying with the federal requirement to minimize the amount of time between when the cash is advanced and when disbursement of funds takes place. When we requested documentation that the federal government had given Community Services the authority to provide a 25 percent cash advance for its Weatherization program, management referred us to the regulations for a different grant program, the Community Services Block Grant, which is overseen by a different federal agency, but did not provide its authority to use those regulations for the Weatherization program.

*Community Services is not complying with the federal requirement to minimize the amount of time between when cash is advanced and when disbursement of funds takes place.*

Moreover, Community Services lacks proper separation of duties for drawdowns of Weatherization program funds. According to the accounting supervisor, the accounting unit's internal controls require that duties are separated such that the person preparing claim schedules for the payment of invoices is prevented from also performing the cash drawdown. However, our review determined that three of 12 disbursements we tested were included in claim schedules that were prepared by the same individual who performed the drawdown. Failure to separate these duties heightens the risk that federal funds could be drawn in an incorrect amount or used for unallowable purposes and remain undetected. The accounting supervisor implemented a new policy after our testing was complete, and now all claim schedules will be reviewed by management prior to the cash drawdown and submission to the State Controller's Office.

#### **Community Services Needs to Improve Its Procedures for Monitoring Recovery Act Block Grant Subrecipients**

Community Services needs to follow its current monitoring practices for block grants not covered under the Recovery Act, and it has not yet developed an adequate process for monitoring additional requirements specific to the Recovery Act Block Grant to ensure that the funds are used only for authorized purposes and that the potential for fraud, waste, and abuse is promptly mitigated. The federal grant authorized by the Recovery Act requires that services be provided by September 30, 2010, and that recipients be paid by December 29, 2010. We believe monitoring of Recovery Act Block Grant funds to ensure the proper use of the funds should occur well before September 30, 2010, to allow subrecipients sufficient time to take corrective action on any findings that may result. According to the manager of program development and technical support for the block grant, if monitoring identifies questionable program expenses after Recovery Act Block Grant funds are spent, Community Services will take the appropriate steps to recover the unallowable expenses, but she did not specify the steps that Community Services would take in such a situation. However, under the federal cost principles applicable to the Recovery Act Block Grant, settlements resulting from violations of federal laws or regulations are an unallowable use for block grant funds unless authorized by the awarding agency.

Community Services was awarded \$89 million in Recovery Act funds by the U.S. Department of Health and Human Services, Administration for Children and Families, for the block grant. The funds were allocated to 63 nonprofit organizations and local governmental agencies that provide block grant services. In federal fiscal year 2009, Community Services had allocated \$62 million

*The federal grant authorized by the Recovery Act requires that block grant services be provided by September 30, 2010.*

in funds other than from the Recovery Act to 64 nonprofit organizations and local governmental agencies that provide block grant services.

According to the staff services manager II responsible for the Recovery Act Block Grant, because the funds authorized by the Recovery Act are governed primarily by the same federal rules and regulations as other block grant funds, Community Services anticipates using the same internal controls. These could include subrecipient monitoring methods shown in the text box for either funding source. Federal laws that govern block grants require Community Services to perform an on-site review of each subrecipient every three years. Community Services must inform a subrecipient of any findings, receive a corrective action plan back within 60 days, and offer training and technical assistance to aid the subrecipient in correcting findings. Community Services meets the requirements through a checklist used by staff who perform the site visits, then completes a guide and issues a report to the executive director and chair of the governing board of each agency to keep subrecipient management informed as to any findings that require attention.

#### Subrecipient Monitoring Process

- Department of Community Services and Development (Community Services) staff member assigned to the subrecipient performs a two to four day site visit once every three years.
- Using the monitoring guide, the staff member examines and evaluates the subrecipient's current block grant programs.
- Upon returning to Community Services' office, the staff member writes a report and submits it within 30 working days to management for review.
- The completed report is mailed to the subrecipient's executive director and chair of the subrecipient's governing board, requiring that a corrective action plan be returned within 60 days.
- A copy of the report is filed in the monitoring binder.
- Subrecipients submit regular updates on their progress implementing recommendations from monitoring reports.

Source: Tools and guides used by Community Services' staff during the subrecipient monitoring process.

Community Services uses an Excel spreadsheet to track pending reports as well as findings and recommendations that subrecipients need to correct. Community Services also maintains binders of monitoring-related correspondence between it and the subrecipients. Block grant managers told us they regularly examine both the internal tracking sheet and the monitoring binders to ensure that staff document their follow-up with subrecipients. In addition, Community Services indicated that it performs an annual desk audit of each subrecipient. Staff use a similar checklist and guide to perform these reviews, which consists of an assessment of the board minutes; policies and procedures for accounting, procurement, and budgeting; and the subrecipient's current outside financial audit report. These processes appear to adequately address the existing block grant monitoring requirements if followed.

#### Current Monitoring Practices Are Not Followed to Track the Resolution of Findings

Our testing indicated that some of the monitoring processes are not being followed. For example, Community Services does not adequately track the status of finding resolutions. We reviewed

a sample of 12 monitoring site visits and desk reviews conducted by Community Services; eight resulted in findings and corrective action recommendations for the subrecipients. Only one of the eight had corrected its findings, and Community Services issued a closing letter to that effect.

The follow-up process for ensuring that corrective action had been taken for the findings relating to the other seven subrecipients was inadequate. Status spreadsheets and correspondence binders were incomplete, and findings remained open for months without follow-up by Community Services' staff, indicating a need for greater management oversight of these monitoring activities. Specifically, when we requested follow-up information, the status spreadsheet or documentation binder was incorrect or incomplete for four of the remaining seven subrecipients. Follow-up was satisfactory for one subrecipient that provided monthly updates describing its corrective action as required by Community Services and unsatisfactory for the other three. For the three subrecipients where the status spreadsheet and documentation binder were correct or complete, the follow-up was unsatisfactory. For example, even though the spreadsheet correctly showed no correspondence having been received since January 2009, no follow-up was initiated by Community Services to determine the subrecipient's corrective action.

### **Community Services Is Not Prepared for the Specific Monitoring Needs of the Recovery Act Block Grant**

In addition to its inconsistency in following current block grant monitoring practices, Community Services is not prepared for additional Recovery Act specific monitoring needs. It has not yet developed a timeline for completing its monitoring of the use of Recovery Act Block Grant funds, identified the method best suited to carry out its monitoring activities based on existing resources, or developed monitoring procedures specific to the additional compliance requirements resulting from the Recovery Act Block Grant, such as jobs reporting and separate accounting of Recovery Act funds.

According to the staff services manager in charge of the block grant program, Community Services has not yet been able to develop a timeline for completing its monitoring of block grant subrecipients receiving Recovery Act funds and may not be able to until it has identified available resources. The staff services manager told us that Community Services may have to monitor a sample of subrecipients based on the amount of the block grant awards they receive and the percentage of the awards the subrecipients have spent. In addition, Community Services has not calculated the staff hours it will take to monitor the Recovery Act subrecipients.

However, although the staff services manager stated that all subrecipients will be monitored within three years, as the federal regulation requires, monitoring efforts for Recovery Act funds may not be performed until well after the funds are spent, precluding Community Services' ability to detect fraud, waste, or abuse and to mitigate their effect before the funds have been spent.

The Recovery Act does not provide funds for administering the block grant, including any activities to monitor subrecipients' use of the funds. Thus, Community Services must absorb those activities using its existing budgets for monitoring other block grant funding sources. When describing the criteria used to select subrecipients to monitor, the staff services manager I mentioned the size of the Recovery Act Block Grant contract and the amount the subrecipient spent, but cited no other risk determinants Community Services uses to prioritize the subrecipients it chooses to monitor.

Community Services did tell us it is in the process of developing an enhanced monitoring guide that will include the additional Recovery Act terms and conditions identified in subgrant agreements to which block grant recipients must adhere. It plans to draft the revised monitoring guide, along with a timeline for conducting the monitoring, in early 2010. However, Community Services was unable to provide us with any details on the contents of the guide or a more specific date by which these two items would be completed.

Without an efficient and effective plan for performing during-the-award subrecipient monitoring, Community Services cannot ensure that the Recovery Act funds will be used for their authorized purposes or that it can promptly mitigate potential waste, fraud, and abuse. While Community Services asserted that any misused funds would be recovered through what it described as the appropriate procedures, it did not specify the procedures or the funding sources subrecipients would use to repay the misspent funds.

### **Community Services Needs Improvement in Its Cash Management Procedures for Recovery Act Block Grant Funds**

Community Services cannot be certain it meets the requirements of the federal regulations, state law, and contract terms that govern the block grant program's use of advance payments. Federal regulations require drawdowns of federal funds be timed as close as administratively feasible to their disbursement for federal program purposes. State law limits advances to 25 percent of the subgrant amounts. Community Services' subgrant agreements for the Recovery Act state that contractors shall submit requests for advance payments

*Based on current plans, monitoring efforts for Recovery Act funds are not expected to be performed until well after the funds are spent.*

*A request for an advance is to be submitted only in the event that a contractor is experiencing financial hardship; however, according to Community Services, it has not defined what constitutes a financial hardship in justifying a request for an advance payment.*

on agency letterhead providing justification for the amount of the advance and how the advance will be used. The agreement further states that a request for an advance is to be submitted only in the event that a contractor is experiencing financial hardship and the burden of proof for the need of an advance payment resides with the contractor requesting the advance. However, according to the manager of program development and technical support for the block grant program, Community Services has not defined what constitutes a financial hardship in justifying a request for an advance payment. Without defining financial hardship, Community Services cannot know when a subrecipient that requests an advance payment has met that standard. Community Services provided advances of Recovery Act Block Grant funds, totaling \$3 million, to 56 service providers.

In addition, Community Services' procedures do not ensure that it draws federal program funds from the correct grant. Specifically, in April 2009, the accounting officer incorrectly overdrew \$180,000 from the Low-Income Home Energy Assistance Program grant and underdrew funds for the Community Services block grant funded by sources other than the Recovery Act. As a result, the Low-Income Home Energy Assistance Program funds were not available for their intended use. Community Services did not detect and correct this error until September 2009, five months later. According to the accounting administrator, work sheets supporting federal drawdowns do not receive supervisory review and any errors are found in a quarterly reconciliation performed in the following quarter.

### **Recommendations**

To ensure it receives the remaining 50 percent of its \$186 million award for the Weatherization program, Community Services should seek federal approval to amend its plan for implementing the Weatherization program and seek an extension from Energy for fulfilling the progress milestones. In addition, it should promptly develop and implement the necessary standards for performing weatherization activities under the program and develop a plan for monitoring subrecipients that includes all requirements called for by the Recovery Act.

Once Community Services has received plans from local service providers, it should make any necessary adjustments in its state plan to accurately reflect average costs per home for weatherization assistance and the estimated number of homes to be weatherized under the program.

To comply with federal cash management rules that govern the use of Weatherization program funds, Community Services should ensure it has the authority to provide advances as outlined in its current policy and segregate the duties of preparing claim schedules requesting payments from the duties of accessing Weatherization program funds.

To strengthen its ability to monitor Recovery Act Block Grant subrecipients, Community Services should do the following:

- Finalize the monitoring guide that focuses on Recovery Act specific requirements.
- Create a timeline and develop a risk-based monitoring plan to ensure that subrecipients of block grant funds authorized by the Recovery Act are monitored in time to allow subrecipients to correct any findings and implement recommendations prior to the September 30, 2010, deadline for providing block grant services.
- Follow its procedures to track the results of monitoring subrecipients that will allow management to ensure that program staff promptly follow up on findings of program noncompliance and that the findings are promptly corrected by subrecipients.

To comply with federal cash management regulations that govern Recovery Act Block Grant funds, Community Services should define the financial hardship under which it will provide cash advances to subrecipients. In addition, Community Services should implement procedures to ensure that it draws federal program funds from the correct grant.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the letter report.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

Date: February 2, 2010

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

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## Appendix

### STATUS OF PREPAREDNESS OF THE DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT TO ADMINISTER FUNDING RECEIVED UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

Tables A.1 and A.2 on the following pages provide a summary of our assessment of the preparedness of the Department of Community Services and Development (Community Services) to administer the funds received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). We assessed Community Services' ability to administer the Recovery Act funding it received for the U.S. Department of Energy's Weatherization Assistance Program for Low-Income Persons (Weatherization) program and the U.S. Department of Health and Human Services' Community Services Block Grant (Recovery Act Block Grant). We determined that Community Services was moderately prepared to administer the Weatherization program and mostly prepared to administer the Recovery Act Block Grant.

We used the following ranking system, consisting of four colors and symbols, to indicate Community Services' preparedness with respect to each program risk area:



- Documentation was provided to support Community Services' assertions.
- Guidance has been received and implemented.
- Guidance is deemed not necessary, and appropriate action to prepare for receipt of Recovery Act funds has taken place.



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

■:

- Documentation was not provided to support Community Services’ assertions.
- No guidance is necessary, but Community Services has not taken any action to prepare for receipt of Recovery Act funds.

✗:

- Documentation was not provided to support Community Services’ assertions.
- Proposed implementation of provisions will not be effective or timely.

We applied the lowest-ranking symbol when more than one condition was present. For example, if we found that Community Services provided documentation to support its assertions in a risk area but that more activities in that area needed to be accomplished, we did not give it a green symbol.

**Table A.1**  
**Department of Community Services and Development’s Preparedness to Administer the American Recovery and Reinvestment Act of 2009 Funding for the Weatherization Assistance for Low-Income Persons Program**

AREA OF PROGRAM RISK	PREPAREDNESS	WEATHERIZATION ASSISTANCE PROGRAM (CFDA #81.042)
<b>Overall Preparedness</b>		
Overall, is the Department of Community Services and Development (Community Services) prepared to track, monitor, and report on American Recovery and Reinvestment Act of 2009 (Recovery Act) funds and to comply with Recovery Act provisions?	■	Based on the most frequently occurring symbol below and the relative importance of the area of program risk, Community Services appears to be moderately prepared to implement the provisions of the Recovery Act for the Weatherization Assistance for Low-Income Persons (Weatherization) program.
<b>Human Capital</b>		
A sufficient level of personnel exists to manage the Recovery Act programs.	◆	The Weatherization program comprises six field representative staff members who monitor the Weatherization program service providers and are supervised by a staff services manager I. Four additional staff members furnish technical support to the service providers. The Weatherization program is overseen by the head of the Field and Weatherization Services Unit, a staff services manager II.  According to the staff services manager II responsible for the Weatherization program, Community Services is planning to add an additional four staff members to increase the unit’s monitoring capabilities. The unit is in the process of final interviews for the additional staff positions.
Staff are adequately trained to effectively implement Recovery Act provisions.	◆	According to the manager of the Field and Weatherization Services Unit, management attended Webinars sponsored by Energy on Recovery Act program objectives and requirements. Primarily, management instructed staff on the Recovery Act contracts and updates on important and relevant topics related to the Weatherization program. However, she stated that notes and minutes are not kept.

AREA OF PROGRAM RISK	PREPAREDNESS	WEATHERIZATION ASSISTANCE PROGRAM (CFDA #81.042)
<b>Financial and Operational Systems</b>		
Separate accounts are established to ensure Recovery Act funds are clearly distinguishable.		<p>Community Services has established separate program cost account (PCA) codes for the Weatherization program. The PCA codes are used to correctly identify, track, and charge expenditures to the Recovery Act funds.</p> <p>Community Services has also established new federal trust fund accounts for the Recovery Act programs it administers.</p>
Financial and operational systems are configured to manage and control Recovery Act funds.		<p>According to the staff services manager II who supervises fiscal services, since the Weatherization program is an existing program with additional funding from the Recovery Act, Community Services has determined that the same internal controls and procedures used for funds other than those from the Recovery Act will be sufficient. Regarding the additional reporting required by Section 1512 of the Recovery Act, Community Services reports its information through the California American Reinvestment and Recovery Act and Accountability Tool (CAAT) as required by the California Recovery Task Force.</p> <p>However, as we describe in the report, Community Services has experienced difficulties in reporting program performance to the U.S. Department of Energy (Energy) because of information technology problems caused by Community Services' move to its current location.</p> <p>Additionally, Community Services lacks up-to-date written policies and procedures for its accounting practices.</p>
Financial and operational systems support the increase in volume of contracts, grants, and loans.		<p>According to the staff services manager II who supervises fiscal services, since the Weatherization program is an existing program with additional funding from the Recovery Act, Community Services has determined that the same internal controls and procedures used for already existing funds will be sufficient.</p> <p>According to its staff services manager for the Weatherization program, because the Weatherization program is an existing program with additional funding, the current operational system is sufficient to handle the increase in grants.</p> <p>Community Services has fully executed contracts and approved compliance plans for only eight of 36 service providers as of December 22, 2009.</p>
<b>Fraud, Waste, and Abuse</b>		
Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are minimized and/or mitigated (internal controls related to activities allowed and unallowed).		<p>Recovery Act contracts with Weatherization program service providers include specific language on the authorized purposes for Weatherization program funds. In addition, according to a staff services manager II, Community Services' staff are planning to increase the monitoring schedule from annual to quarterly site visits to Weatherization program service providers. During these visits, the current monitoring guide for site visits requires Community Services' staff to evaluate a sample of expenditures to ensure that funds are only being used for authorized purposes. However, Community Services has not yet finished revising its monitoring guide to reflect the Recovery Act requirements.</p> <p>All employees of Community Services were required to attend fraud awareness training in July 2009. According to Community Services, the training, which was conducted by its internal audit staff, provided examples of fraudulent activities that have been uncovered in other similar programs. The training included indicators of fraud that may be detected during reviews of expenditure reports and supporting documentation, as well as evaluation of eligibility and additional information regarding internal controls such as separation of duties and reconciliations.</p> <p>Community Services has not yet updated its monitoring plan to include additional areas of monitoring related to compliance with prevailing wage requirements, has not yet hired four additional staff to perform monitoring, and has not yet contracted with a private company to perform the mandated inspections of homes after they are weatherized.</p>
<b>Policies and Processes</b>		
Specific Recovery Act provisions are incorporated into agency policies.		<p>Community Services has not incorporated Recovery Act provisions into its policies. According to the deputy director of administration, the contract, budgets, and accounting units are mapping out procedures and evaluating them to identify those that should be used to update desk manuals that the deputy director described as way out of date. She stated that after the procedures are mapped she will set a deadline for the evaluations.</p> <p>According to the staff services manager II, Recovery Act provisions have been or will be incorporated into its agency policies for administering the Weatherization program in two ways. First, the guide for monitoring subrecipients is being revised to include Recovery Act requirements. In addition, staff have received copies of e-mails and guidance that is appropriate to their position.</p>

AREA OF PROGRAM RISK	PREPAREDNESS	WEATHERIZATION ASSISTANCE PROGRAM (CFDA #81.042)
<p>Written departmental policies provide procedures for:</p> <p>(1) requesting cash advances as close as is administratively possible to actual cash outlays,</p> <p>(2) monitoring of cash management activities, and (3) repayment of excess interest earnings when required (internal controls related to cash management).</p>		<p>Updated written policies and procedures do not currently exist for most accounting processes. According to the deputy director for administrative services, Community Services will be meeting to discuss the creation of written policies and procedures, but did specify when.</p> <p>In addition, Community Services provides advance payments of up to 25 percent of a subrecipient's total grant award of Weatherization funds, but was unable to provide its authority for providing such advance payments. Federal regulations allow Community Services to provide cash advances to subrecipients; however, Community Services must ensure that the advances are made as close as possible to the time of making disbursements by the subrecipients. Moreover, Community Services' practices allowed the same accounting personnel to both prepare claim schedules for the payment of invoices and draw the federal funds to pay those claims.</p>
<p>Written policies and procedures have been established to provide direction for making and documenting eligibility determinations for Recovery Act Funds (internal controls related to eligibility).</p>		<p>Community Services does not make individual eligibility determinations for the Weatherization program. Rather, service providers make eligibility determinations for individuals. The Code of Federal Regulations prescribes how Community Services must select Weatherization service providers.</p>
<p>Corrective action plan processes are in place to promptly resolve any audit findings identified that may impact the ability to successfully implement the Recovery Act.</p>		<p>According to a staff management auditor, the Audit Services Unit monitors and follows up on audit findings issued by outside auditors. The unit uses a spreadsheet to track submission of required audits and provides feedback to Community Services' staff charged with following up on audit findings.</p> <p>Program staff uses a spreadsheet to schedule and track monitoring of subrecipients. For the 12 subrecipient files we reviewed, Community Services followed up on a timely basis regarding corrective action and its records were kept up to date.</p>
<p>New requirements, conditions, and guidance have been provided to the subrecipients regarding Recovery Act funds.</p>		<p>As of December 28, 2009, Community Services has awarded Recovery Act contracts to some Weatherization program service providers, which include both local governments and nonprofit organizations. The contracts include Recovery Act exhibits that are specific to the Weatherization program.</p> <p>In addition, according to Community Services, Weatherization program staff hold monthly meetings that are open to all of the Weatherization program providers to discuss and disseminate information about the Weatherization program requirements. Recently, according to Weatherization program staff, these meetings have focused on the Recovery Act contracts.</p>
<b>Acquisition/Contracts</b>		
<p>New requests for proposals (RFPs) issued under Recovery Act initiatives contain the necessary language to satisfy the provisions of the Recovery Act.</p>		<p>Because Community Services awarded Recovery Act funds for the Weatherization program to existing providers of weatherization services, it did not issue a new RFP before awarding the funds. Rather, it notified existing providers of the availability of funds and the terms and conditions for using them that include the provisions of the Recovery Act.</p> <p>Community Services' announcements seeking new service providers include the contract template that includes the Recovery Act terms and conditions.</p>
<p>Contracts using Recovery Act funds are awarded in a prompt, fair, and reasonable manner.</p>		<p>Weatherization program staff worked closely with the members of the Energy Council, composed of a representative group of service providers to ensure that contract terms and conditions were acceptable to the providers.</p> <p>In addition, according to the staff services manager who manages the unit, the contracts for the Weatherization program were awarded in a timely manner.</p> <p>Although, as of December 22, 2009, Community Services had awarded grants to 36 service providers, totaling \$54.8 million, it had secured executed contracts and approved plans for complying with the Davis-Bacon Act prevailing wage requirements for only eight of these service providers. Community Services requires an executed contract and approved compliance plan before a service provider can begin work.</p>

AREA OF PROGRAM RISK	PREPAREDNESS	WEATHERIZATION ASSISTANCE PROGRAM (CFDA #81.042)
New contracts awarded using Recovery Act funds have the specific terms and clauses required.		Weatherization program contracts for Recovery Act funds have the specific terms and conditions included in multiple exhibits.
Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.	NA	According to Community Services, it does not directly use Weatherization program funds to pay for projects; it provides the funds to subrecipients that provide weatherization services. Thus, related control activities take place at the subrecipient level.
Contracts awarded using Recovery Act funds are transparent to the public.		On Community Services' Web site, the public can review the state plan for the Recovery Act Weatherization program funds, terms and conditions of the contracts, a list of the agencies receiving Recovery Act funds, and the local plans submitted by Weatherization program providers.
The public benefits of Recovery Act funds used under contract are reported clearly, accurately, and in a timely manner.		<p>The Community Services' Web site has a Recovery Act page that allows the public to see which agencies received Recovery Act funds for the Weatherization program and the amount of funding each agency received. In addition, the public can read the local plans Weatherization program providers were required to submit to Community Services and relevant guidance from both Energy and Community Services.</p> <p>Community Services also has included a link to relevant audits and assessments from outside agencies, such as the Bureau of State Audits, and a link to its Recovery Act readiness blog called Team for Recovery Act Implementation Now! (TRAIN) Tracks.</p> <p>However, Community Services was not able to access Energy's reporting system after moving to a new location in October 2009. According to the chief of Information Technology, in December 2009 Community Services regained access to the reporting system.</p>
<b>Transparency and Accountability</b>		
A governance body has been established to manage the overall implementation of the Recovery Act.		Community Services has established an internal task force, called TRAIN. According to the deputy director for administrative services, the TRAIN group meets weekly and is staffed by a representative of each of the program and administrative departments at Community Services. The TRAIN group's goal is to share information regarding Recovery Act guidance and updates and also to work together to better implement the Recovery Act's reporting and monitoring requirements. However, Community Services stated that the TRAIN group does not take meeting minutes or notes.
The appropriate data elements that must be captured, classified, and aggregated for analysis and reporting to meet Recovery Act provisions are identified.		<p>California maintains a Web site that contains the CAAT in which all standard data elements from the recipient and subrecipients from each state department are aggregated and forwarded to the U.S. Office of Management and Budget (OMB) in one state report. The CAAT system contains work sheets used in submitting the required data elements. According to a Community Services research analyst who performs the task, subrecipients return the completed form, which is compared with Community Services' subrecipient information and entered into the CAAT system along with Community Services' required information.</p> <p>However, Community Services was not able to access Energy's reporting system after moving to a new location in October 2009. According to the chief of Information Technology, in December 2009 Community Services regained access to the reporting system.</p>
Reporting mechanisms are in place to collect the required data from subrecipients to meet Recovery Act transparency provisions.		<p>California maintains a Web site that contains the CAAT in which all standard data elements from the recipient and subrecipients from each state department are aggregated and forwarded to OMB in one state report. The CAAT system contains work sheets used in submitting the required data elements. Community Services uses these to input its own information and requires subrecipients to complete the form. According to a Community Services' research analyst who performs the task, subrecipients return the completed form, which is compared with Community Services' subrecipient information and entered into the CAAT system along with Community Services' required information.</p> <p>Once Community Services' management approves the report submitted to the CAAT, it is uploaded to the OMB by the California Recovery Task Force (task force).</p> <p>However, Community Services was not able to access Energy's reporting system after moving to a new location in October 2009. According to the chief of Information Technology, in December 2009 Community Services regained access to the reporting system.</p>

continued on next page...

AREA OF PROGRAM RISK	PREPAREDNESS	WEATHERIZATION ASSISTANCE PROGRAM (CFDA #81.042)
Reports published under the Recovery Act are reviewed and approved for accuracy and completeness (internal controls related to reporting).		Community Services does not publish its report; rather, the data elements are entered into the CAAT. Information submitted from the subrecipients is first verified by Community Services' staff and then entered into the CAAT. An analyst is responsible for inputting the information for the Weatherization program. Only authorized individuals can approve the information entered into CAAT. The approved data is sent to the task force for inclusion in the report to the OMB.  Community Services was not able to access Energy's reporting system after moving to a new location in October 2009. According to the chief of Information Technology, in December 2009 Community Services regained access to the reporting system.
Reports are prepared on a timely basis.		According to the research analyst who submitted the first CAAT report, Community Services submitted the report on time. However, the CAAT system does not generate an automatic confirmation. Therefore, we were unable to confirm the timeliness of the report submitted.  Community Services also was not able to access Energy's reporting system after moving to a new location in October 2009. According to the chief of Information Technology, in December 2009 Community Services regained access to the reporting system.
Community Services regularly monitors subrecipient compliance with federal program requirements (internal controls related to subrecipient monitoring).		According to the staff services manager, Community Services is planning on increasing its monitoring schedule from annually to quarterly site visits and is in the process of revising its current monitoring guide to include Recovery Act requirements. The current monitoring guide for site visits includes reviews of a sample of expenditure line items and the supporting documentation for those expenditures. The program also includes an analysis to determine whether the claimed expenditures are reasonable based on the subrecipient's performance report.

Sources: Interviews with key Community Services' personnel and review of relevant documents pertaining to processes and procedures Community Services had in use to implement provisions of the Recovery Act.

NA = Not applicable.

 = Prepared

 = Mostly prepared

 = Moderately prepared

 = Not prepared

Note: For detailed descriptions of the legend refer to pages 25 and 26.

**Table A.2**  
**Department of Community Services and Development's Preparedness to Administer the American Recovery and Reinvestment Act of 2009 Funding for the Community Services Block Grant**

AREA OF PROGRAM RISK	PREPAREDNESS	COMMUNITY SERVICES BLOCK GRANT (CFDA #93.710)
<b>Overall Preparedness</b>		
Overall, is the Department of Community Services and Development (Community Services) prepared to track, monitor, and report on the American Recovery and Reinvestment Act of 2009 (Recovery Act) funds and to comply with Recovery Act provisions?		Based on the most frequently occurring symbol below and the relative importance of the area of program risk, Community Services appears mostly prepared to implement the provisions of the Recovery Act pertaining to the Community Services Recovery Act Block Grant (Recovery Act Block Grant).
<b>Human Capital</b>		
A sufficient level of personnel exists to manage the Recovery Act programs.		Community Services received no administrative funds for the Recovery Act Block Grant. Therefore, the block grant staff have worked within its current staffing level to ensure that subrecipients meet Recovery Act Block Grant requirements. Community Services was unable to provide a staffing workload analysis. Community Services has taken no action to ensure that during-the-award monitoring will take place prior to the September 30, 2010 deadline for providing services.

AREA OF PROGRAM RISK	PREPAREDNESS	COMMUNITY SERVICES BLOCK GRANT (CFDA #93.710)
Staff is adequately trained to effectively implement Recovery Act provisions.		<p>We saw evidence that staff have attended Webinars by federal agencies such as the U.S. Office of Management and Budget (OMB). Community Services' staff have also participated in Webinars directed to subrecipients of Recovery Act Block Grant funding.</p> <p>According to the staff services manager II, staff also attended Webinars by the federal Office of Community Services, the division meets bimonthly to address outstanding block grant concerns and questions, and division managers forward e-mails to the block grant staff from federal and state agencies that oversee Recovery Act Block Grant funds. We requested documentation of these meetings, but according to Community Services' staff, minutes or notes are not taken.</p>
<b>Financial and Operational Systems</b>		
Separate accounts are established to ensure Recovery Act funds are clearly distinguishable.		<p>Community Services has established separate program cost account (PCA) codes for the Recovery Act Block Grant. The PCA codes are used to identify, track, and charge expenditures for the Recovery Act funds.</p> <p>Community Services has also established new federal trust accounts for the Recovery Act Block Grant.</p>
Financial and operational systems are configured to manage and control Recovery Act funds.		<p>According to Community Services' accounting staff, the Fiscal Services Unit has the necessary systems in place to manage and control Recovery Act funds.</p> <p>According to the staff services manager II, since other block grant requirements also apply to the Recovery Act Block Grant, Community Services has determined that the same internal controls and procedures used for such funds will apply to Recovery Act funds.</p> <p>However, we have concerns about the lack of written policies for accounting procedures. Community Services was unable to provide us with written policies and procedures for the majority of its accounting practices.</p>
Financial and operational systems support the increase in volume of contracts, grants, and loans.		<p>According to the accounting manager, the current financial systems are sufficient to manage the Recovery Act funds. According to the block grant program manager, the Recovery Act funds were only available to the local entities that also currently receive other block grant funds. Block grant program staff will be using the same control processes for both funding sources.</p> <p>Community Services prepared no analysis to document its preparedness, but it is in the process of taking action by providing new Recovery Act contracts to subrecipients.</p>
<b>Fraud, Waste, and Abuse</b>		
Recovery Act funds are used for authorized purposes, and the potential for fraud, waste, error, and abuse are minimized and/or mitigated (internal controls related to activities allowed and unallowed).		<p>According to the staff services manager II, since existing block grant requirements also apply to the Recovery Act Block Grant, Community Services has determined that the same internal controls and procedures used for such funds will be sufficient to minimize the potential for fraud, waste, and abuse.</p> <p>Also, block grant management has identified three areas that require new policies for mitigating fraud, waste, and abuse in the use of Recovery Act Block Grant funds. Grantees must provide a budget narrative for procurements over \$500; previously, this was only required for procurements of \$5,000 or more. Subrecipients must provide justification when requesting advancement of funds; however, Community Services has not defined the financial hardship necessary to justify an advance. According to a staff services manager I, subrecipients must now get preapproval from the head of the Community Services Division to use sole-source procurement.</p> <p>In addition, according to the staff services manager II, staff were briefed on these new policies during a staff meeting to instruct staff regarding the Recovery Act Block Grant contracts. We requested supporting documentation for this assertion and were informed that Community Services did not take minutes or notes at staff meetings.</p> <p>However, under its existing process, monitoring efforts may not be performed until well after funds are spent, precluding Community Services' ability to detect fraud, waste, or abuse and to mitigate their effect before the funds have been spent.</p>
<b>Policies and Processes</b>		
Specific Recovery Act provisions are incorporated into agency policies.		<p>At this time, Community Services has been unable to provide us with any written agency policies for accounting procedures.</p> <p>When asked about communicating policies to block grant program staff, we were directed to the Recovery Act Block Grant contracts, which staff received guidance on from block grant program managers, as described previously.</p>

AREA OF PROGRAM RISK	PREPAREDNESS	COMMUNITY SERVICES BLOCK GRANT (CFDA #93.710)
<p>Written departmental policies provide procedures for:</p> <p>(1) requesting cash advances as close as is administratively possible to actual cash outlays,</p> <p>(2) monitoring of cash management activities, and (3) repayment of excess interest earnings when required (internal controls related to cash management).</p>		<p>Internal procedures cannot be documented because written policies and procedures do not currently exist for most accounting processes. According to a Community Services accounting administrator, Community Services is currently working to create written policies and procedures.</p> <p>Federal and state laws and regulations allow advances to subrecipients, and Community Services allows advances when justified by subrecipients; however, Community Services has not defined the financial hardship necessary to justify an advance.</p>
<p>Written policies and procedures have been established to provide direction for making and documenting eligibility determinations for Recovery Act funds (internal controls related to eligibility).</p>		<p>Community Services does not make eligibility determinations for individuals. Individual eligibility is determined by Recovery Act Block Grant program subrecipients. The criteria, requirements, and procedures to identify eligible subrecipients are specified in the United States Code. The Recovery Act Block Grant is subgranted to the 55 community action agencies and the eight additional community services providers that serve specific geographical areas.</p> <p>The Recovery Act increased the individual eligibility criteria from 125 percent of the federal poverty guidelines as specified by the U.S. Department of Health and Human Services to 200 percent. Community Services issued a memorandum to Recovery Act Block Grant recipients identifying the increase in eligibility criteria and requiring grantees to adhere to the new criteria.</p>
<p>Corrective action plan processes are in place to promptly resolve any audit findings identified that may impact the ability to successfully implement the Recovery Act.</p>		<p>According to the staff management auditor, the Audit Services Unit monitors and follows up on audit findings issued by outside auditors. The unit uses a spreadsheet and provides feedback to Community Services' staff responsible for ensuring audit findings are corrected. The Audit Services Unit also reviews the outside audits that are required for subrecipients receiving over \$500,000 in federal funds each year.</p> <p>Recovery Act Block Grant program staff are supposed to use a spreadsheet to track findings and recommendations for corrective actions from subrecipient monitoring. However, as we discuss in the report, Recovery Act Block Grant staff could not provide evidence that findings that result from monitoring efforts are adequately tracked and that prompt corrective action is taken.</p>
<p>New requirements, conditions, and guidance have been provided to the subrecipients regarding Recovery Act funds.</p>		<p>Community Services has provided subrecipients with contracts that include language specifically describing the Recovery Act's requirements and conditions. Subrecipients are also required to attend a series of Webinars aimed at providing further guidance for the administration of the Recovery Act Block Grant.</p>
<b>Acquisition/Contracts</b>		
<p>New requests for proposals (RFPs) issued under Recovery Act initiatives contain the necessary language to satisfy the provisions of the Recovery Act.</p>	<p>NA</p>	<p>The only RFP issued by Community Services was for the federal Earned Income Tax Credit Initiative. This RFP includes specific Recovery Act information and language; however, we did not identify Recovery Act specific requirements for this type of agreement.</p>
<p>Contracts using Recovery Act funds are awarded in a prompt, fair, and reasonable manner.</p>		<p>According to the staff services manager II, the Recovery Act Block Grant funds are only available to the local entities that also currently receive other block grant funds. Eligible entities were invited to submit a local plan to receive Recovery Act Block Grant funds.</p> <p>According to the staff services manager II, Community Services, like many other state agencies, was unable to obtain budget spending authority from the State of California for the Recovery Act funds until July 2009. Therefore, it was not able to award the contracts in the time frame it would have preferred. As of December 23, 2009, 48 of the 63 contracts had been executed, 11 were in the process of being executed, and four were still pending.</p>

AREA OF PROGRAM RISK	PREPAREDNESS	COMMUNITY SERVICES BLOCK GRANT (CFDA #93.710)
New contracts awarded using Recovery Act funds have the specific terms and clauses required.		The contracts for Recovery Act Block Grant funds have been revised to include the terms and clauses to comply with Recovery Act requirements.
Projects funded under the Recovery Act avoid unnecessary delays and cost overruns.	NA	Community Services does not fund projects with Recovery Act Block Grant funds. Rather, the Recovery Act Block Grant is granted to the eligible entities that fund programs and services for eligible individuals.
Contracts awarded using Recovery Act funds are transparent to the public.		On Community Services' Web site, the public can review the state plan for Recovery Act Block Grant funds as well as the terms and conditions of the related contracts.
The public benefits of Recovery Act funds used under contract are reported clearly, accurately, and in a timely manner.		<p>The Community Services Web site has a Recovery Act page that allows the public to read the state plan for the Recovery Act Block Grant funds, which provides details including the agencies receiving Recovery Act funds and how much funding they will receive. The public can also read the local plans for each of the agencies receiving Recovery Act Block Grant funds.</p> <p>Community Services has also included relevant audits and assessments from outside agencies, as well as links to applicable federal guidance and to its Recovery Act readiness blog called TRAIN (Team for Recovery Act Implementation Now!) Tracks.</p>
<b>Transparency and Accountability</b>		
A governance body has been established to manage the overall implementation of the Recovery Act.		Community Services has established an internal task force called TRAIN. According to the deputy director for administrative services, the TRAIN group meets weekly and is staffed by a representative of each of the program and administrative departments at Community Services. The TRAIN group's goal is to share information regarding Recovery Act guidance and updates and to also work together to better implement the Recovery Act's reporting and monitoring requirements. However, Community Services stated that the TRAIN group does not take meeting minutes or notes.
The appropriate data elements that must be captured, classified, and aggregated for analysis and reporting to meet Recovery Act provisions are identified.		California maintains a Web site that contains the California American Recovery Act and Accountability Tool (CAAT) in which all standard data elements from the recipient and subrecipients from each state department are aggregated and forwarded to the OMB in one state report. The CAAT program contains work sheets used in submitting the required data elements. According to a Community Services research analyst who performs the task, subrecipients return the completed form to Community Services where it is compared with Community Services' subrecipient information and entered into the CAAT system along with Community Services' required information.
Reporting mechanisms are in place to collect the required data from subrecipients to meet Recovery Act transparency provisions.		California maintains the CAAT Web site in which all standard data elements from the recipient and subrecipients from each state department are aggregated and forwarded to the OMB in one state report. The CAAT program contains work sheets used in submitting the required data elements. According to a Community Services' research analyst who performs the task, subrecipients return the completed form to Community Services where it is compared with Community Services' subrecipient information and entered into the CAAT system along with Community Services' required information.
Reports published under the Recovery Act are reviewed and approved for accuracy and completeness by authorized individuals (internal controls related to reporting).		<p>Community Services does not publish its report, rather, the data elements are entered into the CAAT. According to the research analyst who performs the task, information submitted from the subrecipients is first reviewed by program representatives and accounting staff and is then entered into the CAAT. The analyst stated he is responsible for inputting the information for the Recovery Act Block Grant. Only authorized individuals can approve the information submitted into CAAT.</p> <p>The approved data is sent to the California Recovery Task Force for inclusion in the report to the OMB.</p>
Reports are prepared on a timely basis.		According to the staff services manager II, Community Services submitted the report on time. However, the CAAT system does not generate an automatic confirmation. Therefore, we were unable to confirm the assertion.

continued on next page...

AREA OF PROGRAM RISK	PREPAREDNESS	COMMUNITY SERVICES BLOCK GRANT (CFDA #93.710)
Community Services regularly monitors subrecipient compliance with federal program requirements (internal controls related to subrecipient monitoring).		The Recovery Act Block Grant 2009 plan states each Recovery Act Block Grant subrecipient will receive a desk monitoring yearly and a multiday on-site monitoring visit every three years. Subrecipients are required to submit a corrective action plan and any other conditions identified during the monitoring. According to a staff services manager II, block grant staff are currently drafting a revised monitoring guide for the Recovery Act Block Grant funds. The staff plan is to conduct a multiday on-site monitoring visit for a sample of subrecipients. However, Recovery Act Block Grant program managers have not yet developed a risk-based approach or a time frame for accomplishing these monitoring visits.

Sources: Interviews with key Community Services' personnel and review of relevant documents pertaining to processes and procedures Community Services had in use to implement provisions of the Recovery Act.

NA = Not applicable.

✓ = Prepared

◇ = Mostly prepared

■ = Moderately prepared

✗ = Not prepared

Note: For detailed descriptions of the legend refer to pages 25 and 26.

*(Agency response provided as text only.)*

Department of Community Services and Development  
P.O. Box 1947  
Sacramento, CA 95812-1947

January 25, 2010

Elaine M. Howle, CPA\*  
State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

RE: Preparedness Audit of CSD for the Administration of Recovery Act Programs

Dear Ms. Howle:

Thank you for the opportunity to comment on BSA's draft report with respect to the above referenced audit.

The fluid and rapidly changing environment of the American Recovery and Reinvestment Act of 2009 (ARRA) has posed challenges for both BSA and CSD. Evaluating preparedness for a program in the process of development is undoubtedly as challenging as the implementation of the program itself.

Since we are near the end of a long and complicated preparatory stage of program development, the most accurate assessment of CSD's preparedness should, in our view, take account of current conditions and recent developments. Perhaps of equal importance to an assessment of preparedness is the Department's vision and plan to reach its milestone goals and to effect the successful completion of the program. ①

With regard to the Department of Energy (DOE) WAP (Weatherization) program, CSD has made considerable strides in recent weeks and this progress provides the foundation for achieving the goal of weatherizing over 12,900 homes by September 2010, California's benchmark to obtain the remainder of its ARRA WAP grant. Following is CSD's plan for meeting this goal. ②

#### DOE WAP (Weatherization) Workplan

CSD recently surveyed its network of energy service providers in order to update its State Plan. Based on agency projections, the Department is now forecasting that 15,145 units will be weatherized by September 30, 2010. The Department's strategy for attaining this goal is as follows: ③

- CSD has entered into contracts with 36 non-profit organizations to carry out the delivery of DOE ARRA services to 39 of the 46 designated service areas within the state. To meet production goals, key will be the Department's ability to provide services in the remaining seven "un-served" and "underserved" areas. With 26 months remaining before the end of the program, a full complement of service providers can easily meet the overall production goal. The short-term challenge is attaining the September 2010 milestone goal. ④

\* California State Auditor's comments begin on page 45.

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- Two primary factors impact the Department's ability to reach performance milestones: 1) a late start of the production phase due to delays in the issuance of federal guidance and the resulting impediment to program development and the contracting process; and 2) delays in production as "replacement" service providers gear up to serve areas that certain providers won't be serving for purposes of ARRA. .
- The first factor has, for the most part, been remedied and production is underway in earnest.
- ⑤ • As regards the second factor, a "capital reallocation" strategy has been developed to minimize the adverse effects of delays in production by replacement service providers.. Since a number of service providers have excess capacity, i.e. the ability to weatherize at a much faster rate than allocated funds allow, CSD will, in the coming months, shift capital resources from "under producing" service providers to those with excess capacity, thus compensating for shortfalls in the affected areas. In order to ensure that all service areas receive a full complement of funding, allocated capital will be shifted back to the "under producing" service providers after September 2010, at a time when the capital resources can be fully utilized by service providers slow to develop production capability. Essentially, high production areas will be "front-loaded" to equalize overall production in the state over the life of the program.
- CSD has taken steps to provide "replacement" weatherization service in those locales in which service providers have either opted out of the program voluntarily or were disqualified because of "high risk" concerns or an inability to implement the program. The impacted areas include large portions of the San Francisco Bay Area and Los Angeles. In some instances impacted service areas are being served by agencies in adjacent areas; in others, replacement service providers have been or are being selected, including some municipal governments. For example:
  - ⑥ • The City of San Francisco has agreed to become a service provider. The City recently forwarded its business plan to the Department; CSD estimates that the City will finalize a contract by April/May 2010.
  - ⑥ • The City of Los Angeles (Los Angeles Service Area A) – has agreed to become the service provider. The City is presently preparing its plan and developing the administrative infrastructure needed to commence operations. The City is expected to begin providing services in approximately 3-4 months.
  - ⑥ • Los Angeles Service Area D – CSD is currently conducting an RFA to designate a new permanent energy service provider for area. The Department anticipates completion of the RFA by February 2010; however, does not expect the new provider to possess immediate capacity to delivery DOE ARRA weatherization services by September 2010. To bridge the service gap, the Department is negotiating with an existing service provider to deliver services to the area on an interim basis through September 2010. This will assure service and increase the output of the number of completed dwellings by 1,400 – 1,500 units.
  - ⑥ • The City of Oakland has expressed interest in becoming a service provider and is in the early phase of negotiations with CSD. In the interim, the Department will explore the option of redirecting funding, earmarked for Alameda County to another service area where the existing DOE service

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provider possesses excess capacity and can augment the state’s overall unit production totals. The Department will adjust the Alameda County award accordingly with the second installment of grant funding to ensure that the county receives its full share over the life of the program.

- El Dorado and Alpine Counties – the Department is actively negotiating with a neighboring service provider to expand existing service boundaries to include El Dorado and Alpine Counties. ⑥
- San Mateo County and Santa Clara County agencies will be issued contracts in the near term. It is anticipated that the former, an agency recently removed from “high risk” designation, will be able to ramp up production almost immediately. The latter is a new service provider and is three to four months away from meaningful production. The reallocation of funds strategy employed by CSD may be applied to the Santa Clara agency to enable it to concentrate weatherization activity in the period after September 2010 when it will be at full capacity. ⑥
- CSD has defined performance metrics to establish individual agency dwelling targets (goals), quarterly performance benchmarks, and systems to provide timely assessment of service provider performance. The table below summarizes unit projections and quarterly production goals towards the achievement of the September 2010 performance milestone.

	2010				2011				2012
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
Total Planned Units	3,912	5,054	6,179	5,635	4,965	5,215	5,068	4,338	2,784
% to Total Units	9%	12%	14%	13%	12%	12%	12%	10%	6%
Total Planned Units at Benchmark on Sep-2010			15,145	Total Planned Units for Grant					43,150
Percentage of overall unit projection			35%						

- As reflected in the matrix, the department forecasts 9% or the equivalent of 3,912 units to be weatherized by the completion of the first quarter ending March 2010, largely due to the fact that the Department expects to complete the execution of amended service contracts with known service providers until Feb 15<sup>th</sup>. Over the next two remaining quarters, the service providers will be operating at full capacity, and output is projected to increase to approximately 5,000 – 6,000 units per quarter. Based on these projections, California will complete a total of 15,145 units by September 2010, *exceeding* the DOE performance goal by 5% or approximately 2,200 units. ⑥
- CSD has developed an array of performance enhancing measures as follows:
  - *Monitoring and Assessment* – the Department has received approval to hire additional staff and expand the internal capacity of the department’s monitoring and compliance operation by 100%. With the additional staffing, the department will institute newly established monitoring protocols designed to provide more timely reviews of agency performance, identify barriers inhibiting performance, and ensure timely mitigation of identified performance shortfalls. The new monitoring protocols will be implemented February 2010. ⑥

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- ⑥ • *Data Collection/Reporting* - the Department is instituting changes to internal data collection/reporting systems to support the expansion of monthly programmatic reporting from service providers and to improve the Department's ability to better assess the project work portfolio of each individual service provider. CSD anticipates these changes to be in place by February 2010 and will further enhance CSD's internal monitoring and assessment efforts described above.

- ① In broad terms, we believe that the Department's current state of preparedness is more advanced than the BSA audit would suggest. Much of the information gathered by the BSA "snapshot" was collected and evaluated during the formational and transitional phases of ARRA. This is particularly true of the DOE WAP (Weatherization) program. .

CSD's intent in this response is to demonstrate two central points: 1) that, despite the challenges the Department has faced, the ARRA programs for which it is responsible are well underway; and 2) some conditions which BSA identify as indicators of a lack of preparedness are in fact the opposite, i.e. they are illustrative of the Department's ability to plan, adjust to changing conditions and to find alternative solutions when thwarted by conditions that are often beyond its control. Most importantly, perhaps, CSD is confident it will meet its goals and objectives for the benefit of California's low income communities.

Following is an overview of the salient facts and points in support of our contention that CSD is adequately prepared to meet its responsibilities under ARRA.

First, with regard to the DOE WAP (Weatherization) program:

- ⑦ • As of this date CSD service providers have weatherized 210 homes with an additional 790 units in the pipeline or the preparation stage, with rates of production rapidly increasing as illustrated above.
- By way of comparison, according to DOE, 27 states, including most of the larger ones, have weatherized zero to ten units, to date.
- ⑧ • Over the past five years CSD service providers have weatherized in excess of 20,000 units per annum. With increased production capacity due to ARRA program expansions and the addition of numerous subcontractors, CSD is confident the target levels of production can be realized.
- ⑨ • CSD's most recent survey of service providers places placed total estimated program production at 43,000 units by the program completion date of March 2012, greatly exceeding the BSA's production estimate of 28,000 units by that date.

Second, with regard to the Community Service Block Grant (CSBG) program:

- CSD has implemented, overseen and monitored new programming activity and more than doubled the volume of expenditure within existing administrative funding, staffing and resources.
- ⑩ • The Office of Community Services (OCS) at the Department of Health and Human Services (DHHS), the federal funding source for CSBG programs, regards ARRA CSBG as supplemental funding for an existing program and considers oversight activities and procedures to be governed by existing statutory and regulatory requirements and program guidelines.

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- As a result, oversight activities unique to ARRA , including job reporting and a risk assessment survey conducted by the Department, are minimal, with the burden on the Department consisting of increased administrative workload and the proliferation of programs consequent from increased funding levels.
- CSD is on target to expend all CSBG ARRA funding by the September 30, 2010 program completion date, while conducting prioritized monitoring activities within the framework of the statutorily mandated oversight process. (11)
- CSD service providers have created 417 jobs to date, indicating performance standards are being met for one of the principal objectives of ARRA.

While not all of the points contained in the audit have been discussed in detail, we have addressed the findings (numbered) in chronological order below and supplemented by specific points from the corresponding portion of the report (in italics), followed by our response.

#### **DOE WAP (Weatherization)**

- 1. Community Services Has Not Yet Disbursed Recovery Act Funds to Weatherize Homes**
- 2. Federal Agencies' Delays Have Stalled Implementation of the Weatherization Program**

*As of December 1, 2009 no units were weatherized despite an award of \$93 million.*

As a snapshot as of December 1, 2009, this statement is true. There was no production as of the date of evaluation for the simple reason that program preparation was not complete. The necessary, now completed, steps for successful implementation of the ARRA weatherization program were:

- First, an elaboration of program parameters and guidance by DOE was needed. This process evolved during the summer of 2009, several months after program grants were announced.
- Second, the Department of Labor had to establish Davis-Bacon prevailing wage standards for weatherization workers, a critical element of program administration and planning for local service providers. This did not occur until September 3, 2009.
- Third, CSD had to prepare a production contract amendment which incorporated the program elements specified by DOE. The initial amendment was issued on September 29, 2009, but only a few service providers were willing to execute the agreement without greater specificity because of cost and liability concerns associated with prevailing wage requirements and other factors. CSD issued guidance clarifying some of the issues of concern on November 9, 2009 which induced additional service providers to commit, but many waited, in some instances on the basis of advice from their legal counsel, until a revised amendment was tendered on December 17, 2009, thus removing the final obstacle in the contract process.

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⑫

- Fourth, to ensure compliance with DOE requirements with regard to Davis-Bacon, CSD required service provider to develop a Davis-Bacon wage plan to verify the agency's understanding of Davis-Bacon administrative requirements and to demonstrate the capacity for implementation. Because contract execution and Davis-Bacon wage plan preparation and approvals stretched into January, 2010, most service providers did not come on line and commence production until recent weeks. CSD's present state of readiness is a much more accurate and fair characterization of the Department's capacities for successful implementation and the realization of goals.

It should be noted that the \$93 million allocation is an award to the state and has not been awarded to providers unless and until the funds are drawn down, based upon actual production.

### 3. Community Services Has Executed Contracts With Only a Few Service Providers

*In light of the above sequence of events, the audit report concluded that CSD was slow to negotiate agreement with service providers and is therefore unprepared.*

⑬

Many factors contributing to the protraction of the contract process were beyond the Department's control such as the lack of critical guidance from DOE and DOL. States across the country dealt with this challenge in two different ways. Some chose to issue contracts early in the process to enable immediate production under the theory that ensuing problems could be dealt with as they arose. California and most large states chose to resolve issues up front by incorporating federal guidance into the framework of the service provider contracts, thus avoiding delays and conflict during production period.

Additionally, CSD took the ARRA mandate for accountability very seriously choosing to ensure that all parties not only understood program obligations and requirements, but that the contractual mechanisms for enforcing the imperatives of the program were in place. The rationale was that an investment of extra time at the beginning would save time later and result in improved outcomes for the WAP program and the provider network.

CSD faced another challenge in that California has an unusually large and complex network of service providers, located in widely divergent geographical, climatological, economic and business environments. Accordingly, the various agencies had divergent interests, making the negotiation process both tedious and challenging. Even with accommodations, several service providers opted out of the program, an indication of how problematic federal monitoring and reporting requirements, particularly with respect to Davis-Bacon, proved to be. While diversity posed problems it is also an indicator of the strength and adaptability of the process CSD fashioned. Most importantly, perhaps, service providers throughout the state are working hard to do their part and have been fully supportive of program's underpinnings of transparency and high levels of accountability.

The contracting process and the methodological approach taken by CSD are in fact indicators of preparedness that will yield the desired results of the ARRA weatherization program.

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#### 4. Community Services' Weatherization Program is Unlikely to Attain the Performance Milestones Set by Energy

*Delays in program implementation make it unlikely that CSD will attain performance milestones*

The CSD is implementing the program as described above to achieve the performance milestone. In addition, both the federal and state governments have placed considerable emphasis on the transparency and accountability requirements of ARRA. In taking its oversight responsibilities seriously, CSD chose to withhold contracts and funding from several "high risk" agencies, even though it meant a loss of production, realizing that ARRA funds need not simply be expended, but had to be expended well and appropriately. The department's preparations demonstrate that CSD is prepared to be both responsible *and* productive as a custodian of taxpayer dollars. In fact ARRA Inspector General Laura Chick has favorably cited CSD's enforcement process in Legislative hearings and has pointed to CSD's efforts as a best practice in maintaining the integrity of ARRA funding.

Many service providers have recently or are just now completing execution of the contracts and their Davis-Bacon wage plans. The essential question raised by BSA in its report is the impact of CSD's chosen pace and course of action on its ability to attain performance milestones. Here again we would argue that the strategy employed will produce the desired results. ①

In order to receive the final 50% of the program grant CSD service providers must weatherize 30% of its unit production goal by September 30, 2010. CSD's current program goal is 43,000 units which translate into 12,900 units by September 2010. Production projections and proven capacity by our network of service providers would indicate *the goal is readily obtainable*. ②

In just the past few weeks service providers under contract have weatherized 210 homes with an additional 790 units in the pipeline or in the process of being weatherized. With more service providers entering the production phase each week, the pace of production can only accelerate. ⑦

*CSD has not developed cost-effective measures to weatherize homes using ARRA funds.*

True. However, this has not impeded implementation of the program because allowable cost-effective measures existent under DOE WAP are being used by service providers to identify projects and assess weatherization needs, thus enabling production to move forward. Once CSD completes its analysis and receives DOE approval for revising the list of allowable weatherization measures and use of the energy audit tool, then CSD will integrate the changes into the program without compromising productivity and service quality. ⑥

#### 5. Community Services Lacks Written [Policies] For Preparing Weatherization Program Reports

*CSD has not developed the necessary monitoring procedures.*

CSD has and is developing and elaborating monitoring procedures that have and will meet the requirements of the program. The Department, which has been administering existing DOE WAP and LIHEAP programs for many years, employs a monitoring system that has enabled it to identify "high risk" agencies, ⑥

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commence enforcement actions and restrict access to funds and participation in the ARRA program while holding other grantees to the highest levels of accountability. Accordingly, CSD's preparedness in this regard is due in part to its history, its practices and the regulatory framework in which it has long operated.

Monitoring activities with respect to ARRA have been dictated by the character of the various stages of the program. For example, during the ramp-up phase when administrative activities were predominant, field visits were not required. Now that the contract phase is complete, the focus has shifted to production performance and compliance. With recently hired staff now available to implement ARRA-specific monitoring procedures that are currently under development, monitoring activity will mirror production in the field.

*There were separation of duty problems within CSD due to the preparation of claim payment schedules and drawing down federal funds by the same person.*

This finding is accurate; the deficiency has been addressed and corrected.

**6. Community Services Needs to Improve Its Controls Over Cash Management for the Weatherization Program**

*CSD must ensure that advances to service providers comply with federal cash management requirements.*

⑭

CSD's policy regarding advances requires balancing the objectives of protecting federal funds and facilitating program performance. CSD is confident that the integrity of the process is protected and federal requirements have been met. In establishing its advance payment policy the Department took into account a number of considerations.

First, weatherization is a capital-intensive enterprise and the enhanced levels of production mandated by ARRA require extraordinary investment.

Second, because capital outlays are critical in the development and elaboration of a business plan and the allocation of resources, the cash advance provisions of the contract were a major issue of contention in contract negotiations.

In the end, CSD modified its advance requirements to optimize the use of funds and to accelerate the process of recapture of funds in accordance with the Financial Assistance Rules of the Department of Energy as per 10 CFR 600.122.

**CSBG**

- 7. Community Services Needs to Improve Its Procedures for Monitoring Recovery Act Block Grant Sub recipients**
- 8. Current Monitoring Practices Are Not Followed to Track the Resolution of Findings and**
- 9. Current Monitoring Practices Are Not Followed to Track the Resolution of Findings**

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***Procedures for monitoring service providers have not been developed and implemented by CSD, nor has a timeline been established, making it unlikely a large number of service providers will be monitored until after completion of the program.***

This is not an accurate assessment of either the situation or the program requirements. OCS, the federal funding source for CSBG programs, regards ARRA CSBG as supplemental funding for an existing program and therefore not subject to special monitoring requirements. ⑩

The CSBG Act requires a full onsite review of each agency at least once during each three-year period. There are no special monitoring requirements specified in the ARRA, though states are required to consider the administrative, financial and program operations capacities of service providers to determine eligibility for ARRA funding. Nonetheless, because of ARRA's focus on accountability and the elimination of fraud, waste and abuse, CSD closely scrutinized the historical performance of service providers to identify problem agencies. As a result of CSD's monitoring activities since the inception of the ARRA CSBG program, ARRA contracts and funding have been denied to three service providers because of their inability to meet the high standards of accountability mandated by the program.

CSD has had occasion to work closely with Recovery Act Inspector General, Laura Chick, with respect to "high risk" agencies and the possibility that ARRA funds might be in jeopardy. CSD's process has received the support and praise of the Inspector General, who has mentioned the Department favorably in legislative hearing and other forums.

Monitoring activities have been conducted and many more will be conducted prior to completion of the program on a prioritized basis, thus increasing the prospects of identifying "high risk" agencies during the term of the program. CSD has made every effort to ensure the integrity of the program and to recover improperly expended federal funds. The Department's enforcement actions typically result in demands for disallowed costs. ⑪

In order to supplement program oversight, in October, 2009 OCS requested that states require service providers to conduct a risk assessment of their ability to administer the CSBG ARRA program. The surveys were completed by service providers and submitted to OCS on October 30, 2009. The Department is using the information gleaned to prioritize monitoring activities.

On balance, rather than being a problem area, CSD enforcement activity, with respect to both the CSBG and Weatherization programs, is a major indicator of preparedness for oversight responsibility and program implementation. ⑮

***CSD failed to conduct proper follow-up for previously conducted monitoring visits.***

While there have been shortcomings in monitoring visit follow-up, the essential concerns regarding ARRA requirements have been respected and the integrity of the process ensured. The major concerns arising from monitoring visits are addressed on a timely basis with special attention paid to findings which might impact a service provider's ability to administer the ARRA program. For the most part failures to follow-up involved relatively minor issues such board composition, a dominant theme in many CSBG monitoring reports. ⑯

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Nonetheless CSD recognizes that it needs to enhance its monitoring efforts and that an improved monitoring tracking system is required. CSD is currently developing an automated tracking system to better follow up on expenditure, programmatic and other monitoring issues. The Department recognizes that there is always room for improvement and will continue to take the appropriate steps to better position itself to address follow up activities.

**10. Community Services Needs Improvement in Its Cash Management Procedures for Recovery Act Block Grant Funds**

*CSD's advance payment policy is vague and "financial hardship" is not defined with respect to a service provider's qualification for an advance.*

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Under the CA Government Code, section 12781 (b) CSBG service providers are automatically entitled to an advance of 25% of the contract amount. In order to focus attention on the accountability and transparency requirements of ARRA, and because of the limited term of the program, CSD asked that service providers submit a written request for advance payments with a statement of justification and intended use of the funds. Though these elements were not required by law, CSD's intent was to create a moral obligation and to initiate a dialogue about the intended use of funds with the agency concerned. The requirement was also intended to identify agencies for possible monitoring follow-up.

*In April, 2009, CSD mistakenly drew \$180,000 for CSBG expenses from the LIHEAP Program.*

This finding is accurate. Though the error was subsequently corrected and no ARRA funds were involved, the Department acknowledges that a serious financial management mistake was made. The staff persons involved are no longer with CSD and financial control procedures designed to avoid such mistakes have been implemented. More comprehensive policies and procedures are currently being developed.

**Conclusion**

The BSA ARRA Preparedness Audit was a snapshot in time, taken during the formational and transitional phases of the programs, as previously noted. Our objective in this response is to provide you with critical, updated information that demonstrate the department's ability to meet the production and other goals for CSD's ARRA program. We thank you for the opportunity to provide our comments and the additional information we have presented.

CSD is proud of the efforts of our network of service providers and I am personally gratified and extremely grateful to my staff for their effort, their achievement and their dedication to the wellbeing of California's low income communities.

Sincerely,

(Signed by: Lloyd Throne)

Lloyd Throne  
Director

## Comments

### CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

To provide clarity and perspective, we are commenting on the response from the Department of Community Services and Development (Community Services). The numbers below correspond to the numbers we have placed in the margins of Community Services' response.

We disagree with Community Services' perspective that a vision or plan is equivalent to documented accomplishments when assessing its current, not future, preparedness to implement the American Recovery and Reinvestment Act of 2009 (Recovery Act) programs. As stated throughout the report, we question Community Services' ability to execute its vision or plan. For example, we raise concerns about its ability to meet performance milestones included in its state plan for the Weatherization program, its ability to monitor service providers for both the Weatherization program and the Recovery Act Block Grant program, and finally its ability to comply with federal cash management requirements. Moreover, our assessment is not a "snapshot" in time; conversely, our analysis includes information and documents provided to us during the past few months up to and including the exit conference held on January 6, 2010.

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Community Services' goal of weatherizing 12,900 homes by September 30, 2010, is new information since the exit conference held on January 6, 2010, and is apparently based on a plan that is not yet approved by the federal government. The plan currently approved by the federal government would require that 15,024 homes be weatherized by September 30, 2010, as discussed on page 13 of the report in order for Community Services to access the remaining \$93 million in Recovery Act funds it was awarded.

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It is unclear how Community Services' recent survey of energy service providers resulted in the 15,145 units that are forecasted to be weatherized by September 30, 2010. The survey results it refers to were neither shared during the audit nor at the exit conference on January 6, 2010, because, as we state on page 15, the survey was not administered until the week of January 4, 2010. As discussed later in its response, Community Services is still in the process of contracting for services funded by the Recovery Act in much of the Bay Area and Los Angeles and would have little basis for reliable estimates related to services funded by the Recovery Act in these highly populated areas. Since we have not been provided the results, it is unclear whether the survey included service providers

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whose services are or will be paid for with Recovery Act funds, service providers whose services are paid with non-Recovery Act Weatherization program funds, service providers whose services are paid with Low-Income Home Energy Assistance Program funding, or some combination of the three.

- ④ It is misleading for Community Services to state that it has entered into 36 contracts if the contracts are not executed agreements. In the past, Community Services has counted as “entered into” contracts that have been agreed to in principle, but that are still going through a review and approval process prior to being executed. As we state on page 12, as of December 22, 2009, Community Services had executed contracts and approved compliance plans for only eight service providers. As a result, only those eight service providers could begin weatherizing homes as of that date.
- ⑤ We have not been provided a copy of Community Services’ “capital reallocation” strategy and thus cannot conclude as to the likelihood of its success. However, it is unclear how definitive it can be if Community Services does not yet have executed agreements with providers in populous locales such as Los Angeles and the Bay Area as discussed later in its response.
- ⑥ Community Services is overstating its readiness when it attempts to support its conclusion with examples of items that are still in process, but not yet complete. Community Services’ statements highlight that its service providers are not yet prepared to weatherize homes throughout the State. According to Community Services’ response, this may be because negotiations are still occurring, contract terms are being finalized, hiring has been approved but has not yet occurred, administrative practices such as monitoring and data reporting are in the process of being changed, etc. Therefore, we look forward to Community Services being able to provide evidence of its progress in implementing its plans to find “replacement” weatherization services in the locales that currently are without an approved service provider in its 60-day and six-month responses.
- ⑦ We have been provided no documentation—either before holding our exit conference on January 6, 2010, or since that time—to support Community Services’ claim that 210 homes have now been weatherized as part of this program. Furthermore, even if 210 homes have been weatherized in the past three weeks, Community Services is far from its goal of weatherizing approximately 1,433 homes per month (4,300 per quarter) that is needed to meet the September 30, 2010, performance milestone set

by the U.S. Department of Energy (Energy) and the 12,900 homes Community Services estimates will be weatherized as referred to in its response.

While all service providers may have weatherized 20,000 homes per year prior to Community Services being awarded Recovery Act funds (approximately 17,000 homes weatherized using Low-Income Home Energy Program funding and approximately 3,500 homes weatherized through the Weatherization program before it received Recovery Act funds), as we discuss on page 12 of the report and Community Services discusses in its response, several of those providers were not interested in participating in the Recovery Act Weatherization program and Community Services is still trying to reach agreement with replacement providers. Based on its response, in order to qualify to receive the remaining \$93 million of Recovery Act funds, Community Services states it will need to weatherize 12,900 homes by September 30, 2010, or 4,300 homes per quarter leading up to that date. However, to continue receiving the same funding levels for its Low-Income Home Energy Program and the portion of its Weatherization program that is not receiving Recovery Act funds, Community Services will need to continue to weatherize another 5,000 homes per quarter, for a total of 9,300 homes per quarter.

We deleted the sentence in the report containing the estimate.

The point of Community Services' comment is unclear. There are unique requirements for the Recovery Act Block Grant that go above and beyond the requirements for other block grant funds. Furthermore, as we discuss on page 21 in the report, under its existing process, monitoring of Recovery Act funds may not occur until well after the funds are spent, precluding Community Services' ability to detect fraud, waste, or abuse and to mitigate their effect before the funds have been spent. That is why, as it stated on page 21, Community Services is in the process of developing an enhanced monitoring guide that will include Recovery Act terms and conditions identified in subgrant agreements to which block grant recipients must adhere. Without an efficient and effective plan for performing during-the-award subrecipient monitoring, Community Services cannot ensure that Recovery Act funds will be used for their authorized purposes.

Community Services states that it plans on conducting monitoring visits on a prioritized basis; however, interviews with Community Services' staff did not show that to be the case. On the contrary, staff made no reference to prioritizing site visits by using the risk assessments that Community Services now asserts were prepared by service providers and did not provide these assessments to us as being relevant for our analysis of Community Services' preparedness. Rather, as stated on page 21, staff referred only to the

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size of the contract and the amount the contractor had spent as being relevant to Community Services' selection of subrecipients for monitoring. Finally, while Community Services asserts that any improperly expended funds will be recovered, it did not specify the procedures or the funding sources subrecipients would use to repay the misspent funds.

- ⑫ It is unclear what Community Services means when it states in its response that "most service providers did not come on line and commence production until recent weeks." As we state on page 13, as of December 22, 2009, Community Services had executed contracts and approved compliance plans for only eight of the 36 service providers that were awarded Weatherization program grants. As a result, only those eight service providers could begin weatherization work as of that date.
- ⑬ On pages 9 and 10 in our report, we acknowledge that there were certain factors outside of Community Services' control.
- ⑭ We disagree. As we state on page 17 of the report, as of December 28, 2009, Community Services had advanced about \$966,000 in Weatherization program funds to four subrecipients. Roughly \$748,000 of the advances was outstanding as of that date, and \$99,000 had been outstanding more than 100 days. This fails to meet the federal requirement that subrecipients disburse federal funds as close as administratively feasible after receiving an advance.
- ⑮ Community Services is missing the point. As we state on page 18, although Community Services asserts that if its monitoring efforts identify questionable program expenses after Recovery Act funds are spent, it will take the appropriate steps to recover the unallowable expenses, Community Services did not specify what steps it would take. However, under the federal cost principles applicable to the Recovery Act Block Grant, settlements resulting from violations of federal laws or regulations are an unallowable use of block grant funds unless authorized by the awarding agency.
- ⑯ The results of our testing on pages 19 and 20 demonstrate Community Services' process for following up on current findings related to the subrecipient monitoring is inadequate. Specifically, we reviewed a sample of 12 monitoring site visits and desk reviews and found that eight resulted in findings and corrective action recommendations for the subrecipients; however, only one of the eight had corrected its findings. Furthermore, as stated on page 20, the follow-up process for ensuring that corrective action had been taken for the findings related to the other seven was inadequate. Status spreadsheets and correspondence binders were incomplete, and findings remained open for months without

follow-up by Community Services' staff, indicating a need for greater management oversight of these monitoring activities. If not improved, the process for following up on potentially significant findings related to Recovery Act Block Grant funds will also be inadequate.

Notwithstanding the purposes for including the potential financial hardship language in the subrecipient contracts, as we discuss on page 22, by not defining what constitutes financial hardship to its subrecipients, Community Services is unable to verify that its criteria has been met before making an advance.

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