

CALIFORNIA STATE AUDITOR

Bureau of State Audits

High Risk Update—American Recovery and Reinvestment Act of 2009

The California Recovery Task Force and State Agencies Could Do More to
Ensure the Accurate Reporting of Recovery Act Jobs



December 2010 Report 2010-601

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December 21, 2010

2010-601

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

Dear Governor and Legislative Leaders:

The California State Auditor presents its evaluation of California's American Recovery and Reinvestment Act of 2009 (Recovery Act), Section 1512 reporting on jobs created and retained (jobs data). This report is another in a series of reports we have issued regarding the State's implementation of the Recovery Act.

Our report concludes that although the federal Office of Management and Budget (OMB) and the California Recovery Task Force (task force) provide explicit guidance to Recovery Act recipients on how to calculate the jobs data each quarter—as mandated by the Recovery Act—state agencies do not always report their jobs data accurately. Of the five state agencies we reviewed that reported recipient-level jobs data, two did not follow this guidance. For example, one state agency reported triple the actual number of jobs created and retained, which resulted in an overstatement of 71 full-time equivalent positions. In addition, that same state agency calculated its jobs data using incorrect months. Further, three of the five state agencies did not include paid time off in the total number of hours worked as specified in the task force guidance.

Additionally, we found that although OMB advises recipients to be prepared to justify their jobs data estimates and the task force provides recommendations to state agencies on how to ensure that data submitted by their subrecipients is accurate and supported, state agencies do not follow the guidance completely. Specifically, all of the state agencies conducted an analysis for reasonableness of their subrecipients' data, whereas only one state agency reviewed their subrecipients' jobs data calculation methodology, and none of the state agencies reviewed supporting documentation to ensure the accuracy of the jobs data. In one example, a state agency tripled the number of actual jobs reported by its subrecipient in addition to other errors, which resulted in a net overstatement of 545 jobs for the quarter. Furthermore, we identified jobs data errors for two of the five local subrecipients we reviewed.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

On February 17, 2009, the federal government enacted the American Recovery and Reinvestment Act of 2009 (Recovery Act) to help fight the negative effects of the United States' economic recession. As stated in the Recovery Act, its purposes include preserving and creating jobs; promoting economic recovery; assisting those most affected by the recession; increasing economic efficiency; investing in transportation, environmental protection, and other infrastructure; and stabilizing state and local governmental budgets. According to the federal www.Recovery.gov Web site, the federal government disbursed Recovery Act funding to nonfederal entities (recipient) in the form of a contract, grant, or loan, which in turn distributed funds to subsequent nonfederal entities (subrecipient) to support a project or program for which the recipient received Recovery Act funding.

Our review of the accuracy of the number of jobs created or retained each quarter (jobs data) reported at the recipient level uncovered several errors resulting in the jobs data being overstated by 617 jobs. The Recovery Act mandates that, as a condition of receiving federal funds, recipients must report quarterly on the use of those funds. Information that must be reported includes funds received and spent, and jobs created and retained. To help Recovery Act recipients meet these reporting requirements, both the federal Office of Management and Budget (OMB) and the California Recovery Task Force (task force) issued explicit guidance on how to calculate the jobs data. However, we found that, of the five state agencies we reviewed that reported recipient-level jobs data, two did not follow this guidance. For example, the Water Resources Control Board (Water Board) reported triple the actual number of jobs created and retained by calculating them on a monthly basis and then totaling the three months' data, instead of performing the calculation once at the end of the quarter, as required by the OMB and task force guidance. This error resulted in an overstatement of 71 full-time equivalent positions (FTEs). In addition, the Water Board calculated its jobs data using incorrect months. Specifically, OMB requires that the reporting quarter ending June 30, 2010, is to include jobs data for April through June 2010; however, the Water Board reported data for the months of March through May 2010. Further, three of the five state agencies—the Department of Community Services and Development, Department of Transportation, and the Water Board—did not include paid time off in the total hours worked, as specified in the task force guidance. Of these three, two made no attempt to include paid time off in their jobs data calculation, while one attempted to include paid time off but did so incorrectly.

Audit Highlights . . .

Our review of the State's administration of jobs data reporting at the recipient level under the American Recovery and Reinvestment Act of 2009 revealed the following:

- » *Of the five state agencies we reviewed that reported recipient-level jobs data, two did not follow federal or state guidance resulting in overstatements of full-time equivalent positions totaling 617.*
- » *Only one of the agencies we reviewed followed the task force's recommendation to review subrecipients' calculation methodologies and none reviewed supporting documentation to verify the accuracy of the jobs data.*
- » *Two federal audit agencies and one state audit agency that have reviewed California's administration of jobs data reporting under the Recovery Act have reported errors or concerns in subrecipient data reporting.*

Additionally, the task force could do more to ensure that state agencies verify the accuracy of their local subrecipients' jobs data. Although the OMB explicitly states that its guidance does not establish specific requirements for documentation or other written proof to support reported estimates on jobs data, it does advise recipients to be prepared to justify their estimates. Further, the task force issued guidance with specific recommendations for how to ensure the accuracy of subrecipient jobs data. We found that although all of the state agencies we reviewed issued guidance to their local subrecipients and conducted high-level assessments of the reasonableness of their local subrecipients' jobs data, only one followed the task force's recommendation to review their subrecipients' calculation methodologies, and none reviewed supporting documentation to verify the accuracy of the jobs data. In one instance, the Tax Credit Allocation Committee (Tax Committee) stated that it reviewed the jobs data submitted by subrecipients for any obvious anomalies but did not review the jobs data calculation methodology or supporting documentation. Further, the Tax Committee reported triple the actual number of jobs created and retained by collecting the monthly FTEs from its subrecipients and then summing the three months' data without dividing the total by three to adjust for the quarterly calculation. This error, in addition to other errors, resulted in a net overstatement of 545 FTEs. In addition, when we validated the jobs data for two state agency subrecipients and five local subrecipients related to four of the eight state agencies for which we reviewed subrecipient jobs data, we identified errors in the data for two of the local subrecipients. For example, San Juan Unified School District overstated its jobs data by about one FTE out of the 240 jobs it reported.

Finally, since May 2010, two federal audit agencies—the U.S. Department of Labor, Office of the Inspector General (Labor Inspector General), and the U.S. Government Accountability Office—and one state audit agency—the California Department of Finance, Office of State Audits and Evaluations—have reviewed California's administration of jobs data reporting under the Recovery Act. All three of these reviews reported errors or concerns in subrecipient data reporting. For example, the Labor Inspector General reported that the California Employment Development Department did not use the available correction period to update its jobs data after its initial submission of jobs data to the federal reporting Web site.

Recommendations

The task force should provide targeted technical assistance and training to state agencies that are not calculating their jobs data in accordance with OMB guidance.

The task force should issue clarifying guidance to state agencies to ensure the following:

- Jobs are not triple-counted because monthly totals have been summed and not averaged.
- Jobs data estimates are reported for the correct reporting months and state agencies use the correction period to revise their estimates when actual data becomes available.
- State agencies understand the task force's guidance on including paid time off in the quarterly jobs estimates.

The task force should instruct state agencies to review their subrecipients' methodologies for calculating jobs data and, at least on a sample basis, review supporting documentation to ensure the accuracy of the subrecipients' jobs data reported, or use alternative procedures that mitigate the same risks before certifying their jobs data report.

Agency Comments

The task force generally agreed with our recommendations. However, it expressed its ongoing challenges with collecting accurate data from departments, and its frustration with the changing federal guidance and the variations between federal agencies' interpretations of the jobs definitions.

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Introduction

Background

Legislation effective in January 2005 authorizes the Bureau of State Audits (bureau) to develop a risk assessment process for the State and issue reports for improvement in high-risk areas. In April 2009 the bureau issued a report titled *California's System for Administering Federal Recovery Act Funds* (Report 2009-611), which reported that the State's system for administering the American Recovery and Reinvestment Act of 2009 (Recovery Act) should be added to the bureau's list of high-risk issues because of concerns related to the administration of federal programs, the large amounts of Recovery Act funds California has received, and the significant requirements the federal government placed on entities that receive Recovery Act funds. This report, which addresses the job-reporting processes and related internal controls of selected agencies that received Recovery Act funds, is part of the bureau's continuing effort to examine issues that will aid decision makers in finding areas of government that can be modified to help improve operational efficiency and effectiveness.

American Recovery and Reinvestment Act of 2009

On February 17, 2009, the federal government enacted the Recovery Act to help fight the negative effects of the United States' economic recession. As stated in the Recovery Act, its purposes include preserving and creating jobs; promoting economic recovery; assisting those most affected by the recession; increasing economic efficiency; investing in transportation, environmental protection, and other infrastructure; and stabilizing state and local governmental budgets. According to the federal www.Recovery.gov Web site, the federal government disbursed Recovery Act funding to nonfederal entities (recipient) in the form of a contract, grant, or loan, which in turn distributed funds to subsequent nonfederal entities (subrecipient) to support a project or program for which the recipient received Recovery Act funding.

Accountability and transparency are the cornerstones of the Recovery Act and are reflected in the significant reporting requirements it imposed on entities that receive Recovery Act funds as well as in the penalties for noncompliance. For instance, Section 1512(c) of the Recovery Act requires recipients of certain grants to submit to the federal government a report containing several pieces of information not later than 10 days after the end of each calendar quarter. The Recovery Act also mandates that, as a condition of receiving funds, federal agencies will require these grant recipients to provide this information. The required information includes the

amount of Recovery Act funds received, the amount of Recovery Act funds spent or obligated, a detailed list of the projects on which recipients spent or obligated Recovery Act funds, an estimate of the number of jobs created and retained by the project or activity (jobs data), and the infrastructure investments made by the recipients. Section 1512(d) requires federal agencies to make the information in these reports publicly available by posting the information on a Web site.

The U.S. Office of Management and Budget (OMB) issues guidance regarding the administration of federal programs. In response to concerns about the quality of data that recipients were reporting, on December 18, 2009, the OMB issued an update to its initial implementing guidance with the intent to improve the quality of data reported under Section 1512. With respect to the jobs data, the OMB stated that the update reflected important simplifications to the manner in which job estimates were to be calculated and reported. Specifically, recipients would report job estimates on a quarterly basis and would not provide cumulative jobs data. As a result, recipients would no longer be required to sum various data on hours worked across multiple quarters when calculating job estimates. In addition, recipients would no longer be required to make a subjective judgment as to whether jobs were created or retained as a result of the Recovery Act. Instead, OMB explicitly instructed recipients to report the number of hours worked and paid for with Recovery Act funds, expressed in full-time equivalent positions (FTEs). As a result of these simplifications, OMB provided the following revised methodology for calculating the jobs data:

$$\frac{\text{Total number of hours worked and funded by the Recovery Act within the reporting quarter}}{\text{Quarterly hours in a full-time schedule}} = \text{FTE}$$

For example, if employees for one recipient worked a total of 2,080 hours in a quarter, and a full-time schedule for one quarter equals 520 hours, the jobs data calculation would be:

$$\frac{2,080 \text{ hours (worked and funded by the Recovery Act within the reporting quarter)}}{520 \text{ hours (quarterly hours in a full-time schedule)}} = 4 \text{ FTE}$$

Calendar Months Included in Each Reporting Quarter

Quarter 1: January 1 through March 31

Quarter 2: April 1 through June 30

Quarter 3: July 1 through September 30

Quarter 4: October 1 through December 31

Source: Office of Management and Budget Memorandum M-10-08

Further, the OMB specifically defined the calendar months that recipients would include in their quarterly reports, as shown in the text box. Table 1 lists the 12 state-administered federal programs we examined to determine whether the recipients complied with the OMB's guidance.

In addition to the revised calculation methodology, the updated OMB guidance established a period of time during which recipients can make changes to their data (correction period). Specifically, recipients

have the ability to make corrections up to the start of the next reporting period. For example, from July 2, 2010, through September 30, 2010, recipients are able to correct their data for the quarter ending June 30, 2010. According to the guidance, once the next reporting period begins—October 1, 2010, in our example—the recipient will no longer be able to make corrections to the prior quarter—the quarter ending June 30, 2010.

Table 1
Reported Number of Jobs Created and/or Saved for the Quarter Ending June 30, 2010

ADMINISTERING STATE AGENCY	FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	JOBS REPORTED		
			STATE RECIPIENT	LOCAL SUBRECIPIENT	TOTAL
Governor's Office of Planning and Research	State Fiscal Stabilization Fund—Education State Grants	84.394	14,871.30*	20,126.47†	34,997.77
Department of Education	Special Education Grants to States	84.391	-	6,821.89‡	6,821.89
Department of Education	Title I Grants to Local Educational Agencies	84.389	-	4,680.04‡	4,680.04
Department of Transportation	Highway Planning and Construction	20.205	766.72	1,333.65	2,100.37
Department of Community Services and Development	Community Services Block Grant	93.710	-	1,916.42	1,916.42
Employment Development Department	Workforce Investment Act, Adult and Dislocated Workers Program	17.260	11.12	1,373.51	1,384.63
Tax Credit Allocation Committee	Tax Credit Assistance Program	14.258	-	986.45	986.45
Department of Education	Child Care and Development Block Grant	93.713	-	883.24‡	883.24
Department of Public Health	Capitalization Grants for Drinking Water State Revolving Funds	66.468	18.11	535.70	553.81
Employment Development Department	Employment Service/Wagner-Peyser Funded Activities	17.207	523.95	6.47	530.42
Water Resources Control Board	Capitalization Grants for Clean Water State Revolving Funds	66.458	104.75	389.30	494.05
Department of Community Services and Development	Weatherization Assistance for Low-Income Persons	81.042	11.57	428.54	440.11
Subtotals			16,307.52	39,481.68	55,789.20
Other programs			535.52	1,482.14	2,017.66
Totals			16,843.04	40,963.82	57,806.86

Source: California Recovery Task Force's California American Recovery and Reinvestment Act (ARRA) Accountability Tool data.

* These recipient-level jobs comprise jobs created/retained by the University of California (9,617.30) and California State University (5,254).

† These subrecipient-level jobs comprise jobs created/retained by the California Community Colleges (480.01) and local educational agencies (19,646.46).

‡ According to the California Department of Education, 100 percent of its jobs were created/retained at the subrecipient level, despite being reported at the recipient level. It asserts that the jobs were reported at the recipient level because federal guidelines do not require it to differentiate between jobs created and retained at the recipient and subrecipient level. To maintain consistency across the programs for jobs created and retained, our table reflects the state jobs retained at the University of California and the California State University as recipient jobs, and the jobs created and retained at the California Community Colleges and the Kindergarten through 12th grade local educational agencies as subrecipient jobs.

California Recovery Task Force

The California Recovery Task Force (task force) was created by the governor on March 26, 2009. According to its Web site, the task force is charged with tracking the Recovery Act funding coming into the State, ensuring that the funding funneled through the State is spent efficiently and effectively, and maintaining a Web site that is frequently and thoroughly updated for Californians to be able to track Recovery Act stimulus dollars. According to the task force's chief of staff, the task force is responsible for administering California's central reporting system for the Section 1512 reports, using the California American Recovery and Reinvestment Act Accountability Tool (CAAT). Through the CAAT, recipients submit their jobs data to the task force, which is responsible for reviewing the statewide data and submitting them to the OMB through its Web site, www.federalreporting.gov.

Because of the oversight responsibilities for the statewide data and the evolving guidance for calculating the jobs data issued by the OMB, the task force uses Recovery Act Bulletins (bulletins) as one method of communicating information and instructions to state agencies to assist them in promoting transparency and accountability in the use of Recovery Act funds. The bulletins address a range of topics covering technical and procedural matters as well as policy advice and directives and are maintained on the task force's Web site. For example, the task force issued a bulletin clarifying that regardless of the state mandated furloughs¹—resulting in a reduction of 24 workable hours per month—recipients should not reduce the number of hours in a full-time schedule by that amount. Specifically, it stated that state agencies should use 520 as the number of quarterly hours in a full-time schedule—which represents a 40-hour workweek over 13 weeks in the quarter—to ensure that job numbers could be compared across state agencies and projects.

In addition to the bulletins, the task force holds occasional training sessions and regular data workgroup meetings to provide consistent information on the jobs data calculation methodology and to provide any technical assistance needed. Lastly, the task force maintains a help desk and data analyst staff to provide any specific technical assistance or support needed for reporting the jobs data.

¹ In fiscal year 2009–10, California's governor issued an executive order mandating that many state employees take off three unpaid days per month, resulting in a reduction of 24 workable hours per month.

Scope and Methodology

California Government Code, Section 8546.5, authorizes the bureau to establish a government agency audit program to identify state agencies that are at high risk for potential waste, fraud, abuse, and mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness. On April 22, 2009, the bureau designated California's administration of the Recovery Act as a high-risk statewide issue. Since then, the bureau has specifically identified the Recovery Act, Section 1512, jobs data as an area of high sensitivity to federal officials.

We focused our review on the accuracy of the Recovery Act, Section 1512, jobs data for the 12 California programs for which the State reported the largest number of jobs created and retained under the Recovery Act for the quarter ending June 30, 2010. These 12 programs account for nearly 97 percent of the jobs reported as created and retained in the State during the reporting quarter. The following eight state agencies (recipients) administer these programs: Governor's Office of Planning and Research, Department of Education, Department of Transportation, Department of Community Services and Development, Employment Development Department, Tax Credit Allocation Committee, Department of Public Health, and Water Resources Control Board. From the 12 programs, we also judgmentally selected seven subawards administered by the University of California and the California State University and five local agencies (subrecipients) to determine the accuracy of their jobs data.

To determine the appropriate methodology for calculating the jobs data, we reviewed the OMB's update to its implementation guidance and the related accompanying guidance issued by the task force. We interviewed the appropriate staff and reviewed available policies and procedures for each state agency we reviewed to determine their methodology for calculating the jobs data and to assess whether that methodology was consistent with OMB and task force guidance.

To verify the accuracy of the jobs data reported at the recipient level, we obtained the source documentation each sampled state agency used to determine the number of hours worked on activities funded by the Recovery Act. In most cases this documentation consisted of an accounting report that showed the number of Recovery Act hours worked by individual employees. From that source document, we judgmentally selected employees and reviewed their time sheets against the original source document to ensure that the hours worked matched the hours reported. Once

we were confident in the accuracy of the source document, we used those data to recalculate the jobs data to ensure that the recipient correctly applied the OMB methodology.

To determine if state agencies we reviewed verified the completeness and accuracy of their local subrecipient jobs data, we interviewed staff at each agency to understand their processes for obtaining the subrecipient data, reviewed available documents to identify any guidance they provided to the subrecipients on the methodology to use for calculating jobs data, and assessed the extent to which they reviewed the subrecipient reports to verify the accuracy of the reported jobs data. To determine the quality of the sampled state agencies' controls over data completeness, we obtained and reviewed quarterly local subrecipient reports to ensure that the responsible state agency had received quarterly reports from each local subrecipient.

To verify the accuracy of the subrecipient data, we judgmentally selected seven subrecipients—two state agency subrecipients and five local subrecipients—across selected programs at four state agencies to determine whether they submitted jobs data in accordance with OMB guidance. In addition, we interviewed key staff at each selected subrecipient entity to understand their methodology for calculating the jobs data. We then tested the subrecipients' jobs data against source documentation, using the same process we used to test the recipients' jobs data.

We also interviewed the task force staff to gain an understanding of their role and any monitoring procedures they have in place to ensure that California submits accurate data to the OMB. Finally, in order to describe the extent to which other audit agencies have reviewed California jobs data and the scope of those audits, we conducted an online search and inquired with the state agencies we reviewed to determine the scope of any relevant audits or reviews, reviewed the reports issued by any oversight entities identified for areas of concern reported by those entities, and determined the extent to which sampled state agencies implemented changes in response to those audit and review recommendations.

Audit Results

The California Recovery Task Force and State Agencies Could Do More to Ensure That Recipients Are Following Guidance for Reporting Data on Jobs Created and Retained

Although California reported that more than 57,000 jobs were funded with American Recovery and Reinvestment Act of 2009 (Recovery Act) dollars for the period April through June 2010, our analysis of the process state and local agencies use to report the number of jobs created and retained each quarter (jobs data) indicates that more can be done to ensure the accuracy of the reports submitted to the federal government. Four of the five state agencies for which we reviewed recipient-level jobs data did not report such data accurately. These inaccuracies occurred because the agencies did not follow guidance provided by the federal Office of Management and Budget (OMB) and the California Recovery Task Force (task force). Specifically, some triple-counted some jobs, one reported data for the wrong months, and some failed to include all paid hours in their calculations of full-time equivalent positions (FTEs).

In December 2009 both the OMB and the task force issued revised guidance clarifying the methodology for calculating the quarterly jobs data. As described in the Introduction, to accurately calculate the quarterly jobs data, recipients must identify the total number of hours worked on Recovery Act–funded activities within a reporting quarter and divide that by the number of hours in a full-time schedule during the quarter. Further, the task force issued guidance instructing state agencies to include in the number of hours worked in a quarter any vacation, sick leave, training, and jury duty hours that would normally be counted as job expenses if funded by non-Recovery Act dollars. According to the task force guidance, requiring recipients to use a uniform methodology when calculating their jobs data ensures that job numbers can be compared across state agencies and projects regardless of which jobs are retained or created.

Although both the OMB and the task force issued explicit guidance on calculating the jobs data, two of the five state agencies we reviewed that reported recipient-level jobs data—the Water Resources Control Board (Water Board) and the Department of Public Health (Public Health)—did not follow this guidance, as shown in Table 2 on the following page. The Water Board did not base its jobs data calculation on actual hours worked on Recovery Act–funded activities during the quarter. Instead, according to a staff services manager in the Division of Financial Assistance, the Water Board’s project supervisors projected the percentage of time they expected their employees would work on Recovery Act–funded activities each month. The staff services manager explained that at the end of each month, the Division of Financial Assistance reviews time sheets to verify that the employees

billed some time to Recovery Act–funded activities, but it uses the number of employees budgeted for Recovery Act–funded activities, and not the number of hours each employee actually worked on Recovery Act–funded activities, for its jobs reporting calculation. Therefore, if the percentage of an employee’s time spent on Recovery Act–funded activity is higher or lower than this projection, the Water Board will understate or overstate, respectively, its jobs data by using the projected hours rather than the actual time worked.

Table 2
Accuracy of Recipient-Level Jobs Reported for the Quarter Ending June 30, 2010

ADMINISTERING STATE AGENCY	FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	RECIPIENT JOBS REPORTED TO THE TASK FORCE	RECIPIENT ACCURATELY REPORTED JOBS	ELEMENTS NEEDED TO CORRECTLY REPORT JOBS		
					RECIPIENT CALCULATED JOBS DATA IN COMPLIANCE WITH OMB GUIDANCE*	RECIPIENT REPORTED DATA FOR CORRECT TIME PERIOD PER OMB GUIDANCE†	RECIPIENT INCLUDED PAID TIME OFF IN JOBS CALCULATIONS PER TASK FORCE GUIDANCE
Department of Community Services and Development	Weatherization Assistance for Low-Income Persons	81.042	11.57	✗	✓	✓	✗
Department of Public Health	Capitalization Grants for Drinking Water State Revolving Funds	66.468	18.11	✗	✗	✓	✓
Department of Transportation	Highway Planning and Construction	20.205	766.72	✗	✓	✓	✗
Employment Development Department	Workforce Investment Act, Adult and Dislocated Workers Program	17.260	11.12	✓	✓	✓	✓
	Employment Service/Wagner-Peyser Funded Activities	17.207	523.95	✓	✓	✓	✓
Water Resources Control Board	Capitalization Grants for Clean Water State Revolving Funds	66.458	104.75	✗	✗	✗	✗

Source: Auditor-generated based on our review of recipients’ processes of calculating jobs data.

Note: The University of California and California State University are not included in this table because they utilize an alternate calculation methodology that is based on an academic year, per guidance from the federal Office of Management and Budget (OMB). Our testing showed that both are compliant with OMB and California Recovery Task Force guidance.

* OMB memo M-10-08 specifies that jobs should be calculated as total number of hours worked and funded by the American Recovery and Reinvestment Act of 2009 within a reporting quarter divided by quarterly hours in a full-time schedule.

† The reporting quarter we reviewed for this audit is defined in OMB memo M-10-08 from April 1 through June 30, 2010.

Furthermore, after determining the number of FTEs for each month, the Water Board totaled the FTEs for all three months to arrive at the number of jobs created or retained for the quarter. As a result, the Water Board significantly overstated the number of FTEs for the quarter. For example, if one employee worked exclusively on Recovery Act–funded activities in April 2010, she would be counted as one FTE for April. If she also worked exclusively on Recovery Act–funded activities in both May and June, the Water Board

would count her as three FTEs instead of the one FTE she actually represented during the quarter. By using this methodology, the Water Board reported triple the actual number of FTEs funded by the Recovery Act, and therefore overstated its jobs data for the quarter by 71 FTEs. For its reporting quarter ending September 30, 2010, the Water Board asserted that it corrected its methodology. Although the Water Board's proposed change in methodology eliminates triple-counting, it continues to base the total number of hours worked on budgeted rather than actual hours. In addition, the Water Board calculated its jobs data using incorrect months. Specifically, it reported jobs data for March through May instead of April through June.

Also, Public Health did not use the number of actual hours worked during the quarter to calculate its FTEs. Instead, according to Public Health, each month it multiplied the prior month's percentage of total hours worked on Recovery Act-funded activities by the total number of workable hours in the current month, which included furlough hours. It indicated that effective for the subsequent reporting quarter, Public Health revised its methodology to sum the actual hours worked on Recovery Act-funded activities as reflected on employee time sheets.

Further, three of the five state agencies did not include paid time off in the total number of hours worked as specified in the task force guidance. Two of the agencies—the California Department of Transportation (Caltrans) and the Department of Community Services and Development (Community Services)—made no attempt to include paid time off in their jobs data calculation, while the Water Board attempted to through its incorrect use of budgeted data. State agencies that did not follow the implementing guidelines issued by the OMB and the task force concerning paid time off may be understating their jobs data. Further, the lack of uniformity in calculating the jobs data limits the task force's ability to compare the data across state agencies and projects. The state agencies' errors in calculating their jobs data stem from a lack of understanding of the data they use to arrive at the number of hours worked in a quarter and how to apply the calculation.

The Task Force Should Clarify Its Expectations That State Agency Recipients Ensure the Accuracy of Their Local Subrecipients' Jobs Data

The OMB explicitly states that its guidance does not establish specific requirements for documentation or other written proof to support reported estimates of jobs data; however, it also indicates that state agencies should be prepared to justify their estimates. Further, it stipulates that state agencies must use reasonable judgment in determining how best to estimate the job impact of Recovery Act dollars, including using appropriate sources of information to generate

Procedures Recommended by the California Recovery Task Force for Ensuring the Accuracy of Jobs Data

- Provide guidance to subrecipients regarding appropriate job calculation methods.
- Review the subrecipients' job calculation methodology for accuracy and appropriateness.
- Perform an analytical analysis of the reported numbers to assess their reasonableness.
- Review subrecipients' supporting documentation on a sample or periodic basis.

Source: California Recovery Act Bulletin 09-27.

such an estimate. In addition, the task force issued a bulletin indicating that departments must include an estimate of jobs data for projects and activities managed by local subrecipients. Also, it stated that recipients should implement procedures such as those listed in the text box to ensure the accuracy of local subrecipients' jobs data.

As Table 3 shows, when applicable, all of the state agency recipients we reviewed provided guidance to local subrecipients regarding appropriate methods for calculating jobs data and conducted a high-level analysis of the reasonableness of their local subrecipients' jobs data. In one example, the deputy executive director of the Tax Credit Allocation Committee (Tax Committee) stated that it reviews local subrecipient report job titles to

ensure that subrecipients reported jobs data for construction-related positions that were appropriate for the project and to confirm the reasonability of the FTEs. A typical error it may find is a subrecipient reporting large expenditures without reporting any jobs data. She indicated that if they identify anomalies, the Tax Committee staff follows up with the local subrecipient to determine if there is a problem with the data.

Although the Tax Committee conducted an analysis of the reasonableness of the subrecipients' job data, it incorrectly totaled the monthly FTEs as calculated by its subrecipients, which resulted in reporting 986 FTEs. Specifically, if not for data entry errors and late subrecipient submissions, it would have reported 1,323 FTEs. Similar to the Water Board example discussed on pages 12 and 13, the Tax Committee collected its subrecipient jobs data monthly and reported the summation of the three months' data for the reporting quarter ending June 30, 2010. By using this methodology, the Tax Committee reported triple the actual number of FTEs funded by the Recovery Act, with the result that it should have correctly reported 441 FTEs. Thus, the Tax Committee reported a net overstatement—resulting from all errors—of 545 FTEs. According to the executive director of the Tax Committee, upon learning of these errors, it corrected its methodology for subsequent reporting quarters.

None of the six state agencies that received subrecipient jobs data reviewed their subrecipients' supporting documentation to verify the accuracy of those data.

In addition, five of the six state agencies that received jobs data calculated by their subrecipients did not review their subrecipients' methodology for calculating the jobs data, and none reviewed their subrecipients' supporting documentation to verify the accuracy of those data. Although none of the state agencies we reviewed performed procedures to ensure the accuracy of the subrecipient data during the quarter we reviewed, two of the eight agencies stated

Table 3
Subrecipient Monitoring by State Agency for the Quarter Ending June 30, 2010

ADMINISTERING STATE AGENCY	FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	DID THE STATE ADMINISTERING AGENCY DO THE FOLLOWING FOR SUBRECIPIENT MONITORING?				
			PROVIDE GUIDANCE TO SUBRECIPIENTS ON APPROPRIATE JOBS CALCULATION METHODOLOGY	ENSURE THAT ALL QUARTERLY REPORTS WERE SUBMITTED (DATA COMPLETENESS)	PERFORM AN ANALYSIS OF REASONABLENESS OF JOBS DATA	REVIEW SUBRECIPIENTS' JOBS CALCULATION METHODOLOGY	REVIEW SUBRECIPIENTS' SUPPORTING DOCUMENTATION
Department of Community Services and Development	Community Services Block Grant	93.710					
	Weatherization Assistance for Low-Income Persons	81.042	✓	✓	✓	✗	✗
Department of Education	Special Education Grants to States	84.391					
	Title I Grants to Local Educational Agencies	84.389					
	State Fiscal Stabilization Fund—Education State Grants*	84.394	✓	✗	✓	✗	✗
	Child Care and Development Block Grant	93.713					
Department of Public Health	Capitalization Grants for Drinking Water State Revolving Funds	66.468	✓	✓	✓	✗	✗
Department of Transportation	Highway Planning and Construction	20.205	NA [†]	✗	✓	NA [†]	✗
Employment Development Department	Workforce Investment Act, Adult and Dislocated Workers Program	17.260	✓	✓	✓	✗	✗
	Employment Service/Wagner-Peyser Funded Activities	17.207					
Governor's Office of Planning and Research	State Fiscal Stabilization Fund—Education State Grants*	84.394	✓	✓	✓	✓	✗
Tax Credit Allocation Committee	Tax Credit Assistance Program	14.258	✓	✓	✓	✗	✗
Water Resources Control Board	Capitalization Grants for Clean Water State Revolving Funds	66.458	NA [‡]	✓	✓	NA [‡]	✗

Source: Auditor-generated based on our review of recipients' practices of subrecipient monitoring.

NA = Not applicable.

* State Fiscal Stabilization Fund is administered at both the Department of Education and the Governor's Office of Planning and Research. Therefore, the subrecipient monitoring varies between the two agencies.

† Department of Transportation subrecipients do not perform their own jobs calculations. The number of employees, their hours, and payroll figures are entered into an online form and calculations are performed by a database.

‡ Water Resources Control Board actually performs the calculations for the subrecipients—it only asks them to report hours worked and hours in a full-time schedule.

Education did not conduct on-site reviews for the reporting quarter ending June 30, 2010, because delays in the state budget made it impossible.

they had developed a process for reviewing subrecipients' supporting documentation—the California Department of Education (Education) and Community Services—but did not implement those processes for the reporting quarter ending June 30, 2010.

For example, for the reporting quarter ending March 31, 2010, Education expanded its existing on-site local subrecipient monitoring reviews for the State Fiscal Stabilization Grant to include validating the jobs data provided by 18 local educational agencies. In addition, Education established a process for conducting reviews online. According to Education's assistant director of audits and investigations (assistant director), the primary difference between the on-site and online reviews is that for the online reviews, local educational agencies uploaded their supporting documentation to an online data system for the reporting quarter ending March 31, 2010. According to the assistant director, Education did not conduct on-site reviews for the reporting quarter ending June 30, 2010, because delays in the state budget made it impossible for Education's staff to travel to conduct site visits and Education did not conduct online reviews in order to maintain a consistent review schedule. The assistant director expects to resume conducting on-site reviews of selected local educational agencies as well as conducting online reviews on a cyclical basis in January 2011.

In addition, two of the state agencies we reviewed—Caltrans and Education—did not ensure they reported complete jobs data for the quarter ending June 30, 2010. For example, according to the Recovery Act program risk coordinator from Caltrans, it did not monitor its subrecipients and did not ensure that they reported the required data for the reporting quarter ending June 30, 2010. He indicated that during our audit period Caltrans was developing reports to identify nonreporting subrecipients, which it implemented in July 2010. Further, the Recovery Act program manager indicated that during the reporting quarter ending December 31, 2010, Caltrans began informing their nonreporting local subrecipients that Caltrans would not authorize additional federal funds until the local subrecipients submit their reports. Alternatively, Education sends a follow-up letter to any subrecipient that has not submitted its jobs data by the quarter's end. However, if a local subrecipient does not submit its quarterly report, Education will not have jobs from that subrecipient to report for the quarter. For the four programs we reviewed that Education administers, local subrecipients did not report jobs data for 36 of Education's 3,091 subawards in the reporting quarter ending June 30, 2010. For the previous reporting quarter ending March 31, 2010, these same 36 subrecipients reported jobs data totaling nearly 50 FTEs.

Due to a lack of monitoring of subrecipient jobs data, some state agencies may report inaccurate Recovery Act jobs data to the task force. We identified inaccuracies in the job calculations of two of the local subrecipients we tested—the San Juan Unified School District (San Juan) and the city of Sacramento, Department of Utilities (Utilities). For example, San Juan—a subrecipient of Education’s State Fiscal Stabilization Grant—overstated its jobs data by about one FTE out of the approximately 240 jobs it reported. Specifically, San Juan reported that one employee worked the full quarter on Recovery Act–funded activities, when the employee worked for only part of the quarter on such activities resulting in an overstatement of 0.35 FTE. Further, San Juan inadvertently reported an additional one-half FTE due to an accounting error that occurred during a payroll adjustment. Although an overstatement of nearly one FTE may seem like a minor issue, Education has nearly 3,100 subawards for the four programs we reviewed. Small overstatements such as this can add up when Education reports its aggregated jobs data to the task force.

Additionally, Utilities overstated its FTEs because—according to a senior accounting officer—it inadvertently included some non-Recovery Act hours in its quarterly report. She indicated that Utilities subsequently corrected its processes to ensure that it separately tracks the number of hours worked on Recovery Act and non-Recovery Act–funded activities. When we reviewed the University of California (UC) and the California State University (CSU) jobs data we found that both used an alternate calculation methodology that was included in OMB’s revised guidance issued in December 2009. This methodology—definite term—is used when workers are hired for a definite term, with a plan to pay a portion of their wages and salaries over that term with Recovery Act funds and the remaining portion with non-Recovery Act funds. For example, a school district might use its Recovery Act funds to pay 50 percent of the salaries for 100 teachers for one school year—10 months. Due to changes resulting from cumulative jobs reporting in the initial guidance and quarterly jobs reporting in the revised guidance, we reviewed the jobs data reported over the entire time period. UC reported 8,356 cumulative jobs for the July to September 2009 quarter and 9,617 jobs for each of the next three quarters for an average of 9,302 jobs per quarter. CSU reported 26,156 cumulative jobs for the July to September 2009 quarter and 5,254 jobs for each of the next three quarters for an average of 10,480 jobs per quarter. Each received \$716.5 million in Recovery Act funds for an average cost per job of \$77,026 for UC and \$68,371 for CSU. While the methods of performing the calculations differed, the average number of jobs per quarter over the year funded by the Recovery Act at UC and CSU appear to be reasonable estimates.

Federal and State Reviews Have Raised Issues Regarding California's Reporting of Recovery Act Jobs Data

Since May 2010 two federal audit agencies—the U.S. Department of Labor, Office of the Inspector General (Labor Inspector General), and the Government Accountability Office (GAO)—and one state audit agency—the California Department of Finance, Office of State Audits and Evaluations (Finance)—have reviewed California's administration of the jobs data reporting for the Recovery Act. All three of these reviews reported errors or concerns in subrecipient data reporting.

The Labor Inspector General Reported That the California Employment Development Department Did Not Use the Federal Correction Period

On September 27, 2010, the Labor Inspector General, Office of Audit, issued its report titled *Recovery Act: Data Quality in Recipient Reporting*, which covered the two reporting quarters ending December 31, 2009, and March 31, 2010. In this report, the Labor Inspector General concluded that the California Employment Development Department (Employment Development) did not update its jobs data after the initial submission of data to the federal reporting Web site. The Labor Inspector General indicated that although the OMB began accepting corrections to submitted data beginning February 2, 2010, for the quarter ending December 31, 2009, through the federal reporting Web site, Employment Development did not make use of this correction period to update the number of jobs created or retained when corrected data became available. As a result, one of the subrecipients the Labor Inspector General reviewed overreported its jobs data by 10.52 jobs (26 percent). The Labor Inspector General recommended that the assistant secretary for employment and training instruct Employment Development to make full use of the correction period to ensure the reasonableness of data reported. During our audit procedures, we inquired with an Employment Development representative who indicated that he was unaware of this report and the available correction period.

The GAO Reported Its Concerns About the Reliability of Education's Jobs Data

In May 2010 the GAO issued its report of Section 1512 jobs data reporting, titled *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability*, which covered the reporting quarter ending March 31, 2010. In this report, the GAO noted two areas of concern that called into question the reliability of the jobs data reported by Education.

GAO's first concern was related to the number of education-related jobs being reported by Education, because some local educational agencies were underreporting vendor jobs.² The GAO stated in a previous report that it interviewed local educational agencies that indicated they received reporting guidance from Education but did not receive clear guidance on calculating and reporting vendor jobs funded by the Recovery Act. In its May 2010 report, when the GAO followed up on its previous finding, it noted that although Education has issued several letters to local educational agencies—including one stating that jobs counted should include jobs created or retained by other entities, such as subawardees and vendors—the local educational agencies it met with since its previous report continued to be confused by vendor reporting requirements. In response to the finding in the GAO's latest report, Education indicated that it would revise its guidance to local educational agencies on reporting vendor jobs and would provide clarifying guidance when it communicates with the local educational agencies in May 2010 regarding the next reporting period. The task force provided training to Education and its local subrecipients on June 1, 2010, that included a discussion of reporting all vendor jobs to the extent practicable and provided a review of the methodology for calculating those jobs.

The second concern the GAO reported was that the data reliability strategies used by Education to review information submitted by local educational agencies did not always identify questionable job estimates. The GAO suggested that Education begin reviewing the reporting data and methodologies of the 10 largest local educational agencies, which would account for a large portion of its Recovery Act funding and could help Education uncover systemic reporting problems. According to Education, it began conducting additional checks for the 10 largest local educational agencies, such as comparing the current jobs data with the previous reporting quarters to ensure that the subrecipients reported consistent data. Education indicated that for any questionable data, it followed up with the respective subrecipient via telephone call or email.

Finance Raised Concerns About the Quality and Consistency of Local Subrecipient Data

On October 29, 2010, Finance issued a management letter to the task force regarding the Recovery Act jobs data. The letter was in response to a task force request that Finance review the local subrecipient jobs data for the reporting quarter ending June 30, 2010, to ensure that documents exist and agree with the

The GAO stated that when it followed up on a previous finding that local educational agencies indicated the reporting guidance received from Education was not clear, it found the local educational agencies were still confused.

² According to the task force guidance to Education, local educational agencies should focus on vendor jobs that are created primarily through service contracts, such as a consultant that provides professional development to teachers.

amounts reported to the task force by Caltrans, Employment Development, and Education. The scope of the review was limited to local subrecipient reporting and thus did not include an analysis of the accuracy of the state agencies' own methods for calculating their respective jobs data. Finance's review concluded that these state agency recipients did not assess supporting documentation for accuracy, with the result that these agencies reported incorrect jobs data, local subrecipients calculated the jobs data inconsistently, and local subrecipients did not consistently retain supporting documentation for their jobs data calculations. Finance recommended that state agencies, local subrecipients, and contractors ensure that a sufficient audit trail be maintained to support the estimated or actual jobs data calculations.

Recommendations

The task force should provide targeted technical assistance and training to state agencies that are not calculating their jobs data in accordance with OMB guidance.

The task force should issue clarifying guidance to state agencies to ensure the following:

- Jobs are not triple-counted because monthly totals have been summed and not averaged.
- Jobs data estimates are reported for the correct reporting months and state agencies use the correction period to revise their estimates when actual data becomes available.
- State agencies understand the task force's guidance on including paid time off in the quarterly jobs estimates.

The task force should instruct state agencies to review their subrecipients' methodologies for calculating jobs data and, at least on a sample basis, review supporting documentation to ensure the accuracy of the subrecipients' jobs data reported, or use alternative procedures that mitigate the same risks before certifying their jobs data report.

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

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: December 21, 2010

Staff: Philip Jelich, CPA, Deputy State Auditor
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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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(Agency comments provided as text only)

December 6, 2010

Office of the Governor
Governor Arnold Schwarzenegger
Sacramento, CA 95814

Ms. Elaine Howle
California State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle,

It is with appreciation and respect that I write to respond to your audit #2010-601 titled: *High Risk Update—American Recovery and Reinvestment Act: The California Recovery Act Task Force and State Agencies Could Do More to Ensure the Accurate Reporting of Recovery Act Jobs Created or Retained*. As the Director of the California Recovery Task Force (Task Force), I speak on behalf of all state departments that have received Recovery Act dollars when I thank you for your assistance in identifying errors in the quarterly Recovery Act reports. The Task Force plans to implement the recommendations listed in your report immediately. I would also like to outline steps we have already taken in our continued effort to collect and report the most accurate data possible from our departments, as well as some challenges we have faced during this process. The Task Force and the Governor share your audit's goal of reporting the most accurate data, and we will continue to do everything in our power to achieve this goal.

As you are aware, two of the twelve top jobs-producing departments you visited during your audit fall under the auspices of separate constitutional officers (the California Department of Education and the California Tax Credit Allocation Committee). The Task Force was created by Governor's Executive Order, so although we have functional working relationships with both of these entities, our actual authority to enforce guidelines or a rule upon these entities is limited.

Thank you for your consideration of what the Task Force has done to implement this new metric amidst unprecedented numbers of grants in shortened timelines. Government entities are not always known to adapt well to change, and the growing pains of reporting on Recovery Act funding have surely been felt by the Task Force. In large part, the Task Force relies on state departments to ensure the quality of its data. We do verify job calculations for reasonableness at the award level, but by necessity rely on departments and their staff to certify that their own jobs numbers are accurate when they submit their reports into our data system. This is mainly because jobs numbers are only reported to the federal government on the prime-recipient level, so the Task Force has limited visibility into how many of the awards jobs are attributed to each subrecipient. State departments are aware of this data quality responsibility, as the Task Force communicated this responsibility both verbally and in Recovery Act Bulletin 09-12, where it is stated:

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"DEPARTMENTS ARE WHOLLY RESPONSIBLE FOR THE ACCURACY AND TIMELY SUBMISSION OF DATA FOR THEIR ARRA PROGRAMS. THE INDIVIDUAL NAMED BY AN ORGANIZATION AS AN APPROVER OF DATA DOES SO ON BEHALF OF THE DIRECTOR OR OTHER ENTITLED HEAD OF THEIR ORGANIZATION. DEPARTMENTS ARE RESPONSIBLE FOR CREATING AND MAINTAINING SYSTEMS, PROCEDURES AND PROCESSES AS NECESSARY TO ENSURE THE VALIDITY OF DATA AND ITS TIMELY AND ACCURATE SUBMISSION."

Not only had recipients of federal monies never been required to calculate jobs before, but the federal government changed the definition of a job created or retained ten months after the passage of the Recovery Act, which further confused recipients. We recognized the burden of this new calculation and have focused on helping recipients understand and interpret guidance from the federal government. With the assistance of audit entities like yours, California continues to be a leader nationally in Recovery Act reporting. The Task Force has carried out several programs and initiatives to correct audit findings and help ensure its standard of reporting remains high:

- Distributed Recovery Act Bulletins to all state departments that explain the federal government's methods for calculating jobs created and retained. In these bulletins, we explain, in detail, how to perform the job calculations and detail the expectations of the federal government and the Task Force, including those relating to subrecipient monitoring.
- Provided training and technical assistance to all state departments receiving Recovery Act funds and answered any questions they have had related to jobs calculations.
- Followed up on all negative audit findings from previous audits, including those pointed out in your audit, by meeting individually with grant staff from departments with issues or confusion. These meetings are held as often as weekly, and changes have been implemented to correct programmatic weaknesses in state departments up to and including staffing changes.
- Provided additional review and assistance to departments with expressed confusion or negative audit findings. For example, the California State University system incorrectly calculated jobs in its first quarter of reporting. The hands-on assistance of the Task Force member from the Governor's Office of Planning and Research has since corrected the CSU's methodologies, which you find as correct in your review.
- Provided targeted training through a webinar to the Department of Education's local education agencies after negative findings by the Government Accountability Office that specifically focused on calculating jobs.
- Provided constant availability through a help desk email and phone line, as well as responsive Task Force staff, to answer any issues or concerns that have been raised over confusion of job calculations.

I would also like to express the Task Force's frustration with the federal government's insistence on using a job creation metric. We do not feel the federal government's definition of a job created or retained is accurately captured by its definition of how to calculate that job. In fact, when you look at the definition of

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a job created or retained, you see that it is simply hours of payroll funded with Recovery Act dollars. Additionally, over half of the Recovery Act money that has come to the state is not 1512 reportable, meaning it is impossible to capture job impact from the entirety of the Act. Also, the jobs metric does not capture all vendor jobs or secondary job generation, such as that demonstrated at the grocery store where the worker funded by the Recovery Act is now able to spend more money. The jobs that recipients report do not come close to capturing the economic impact. Even the federal government has turned to more sophisticated job-growth metrics, including Congressional Budget Office estimates and economic impact analysis, to illustrate job creation from Recovery Act spending. The fact that the federal government did not include the jobs metric in its recently expanded reporting on all federal funds speaks volumes about its reliance on the metric.

Federal agencies are still differing in their interpretations of the jobs definition. For instance, the Federal Highway Administration has given departments of transportation guidance to not count vacation or time-off on monthly reports given to the federal agency. This inconsistency at the federal level, including revised guidance, has served to confuse many recipients of Recovery Act funds and has translated into significant excess work with regard to quarterly reporting.

In conclusion, I would again like to thank you and your team for your professional work on the Recovery Act audit. The Task Force's work towards accurate data reporting is only furthered by your findings, and we appreciate your partnership in achieving an accurate picture of the Recovery Act in California.

Sincerely,

(Signed by: Richard L. Rice)

Richard L. Rice
Senior Advisor to the Governor
Director, California Recovery Task Force

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