



COUNCIL AGENDA: 08-30-11
ITEM: 2.17

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Dennis Hawkins, CMC
City Clerk

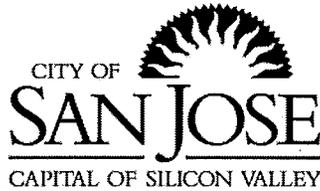
SUBJECT: SEE BELOW

DATE: 08-18-11

**SUBJECT: THIRD AUDIT OF THE AMERICAN RECOVERY AND
REINVESTMENT ACT**

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on August 18, 2011 and outlined in the attached memo previously submitted to the Public Safety, Finance and Strategic Support Committee, accept the Third Audit of the American Recovery and Reinvestment Act.



Office of the City Auditor

**Report to the City Council
City of San José**

**AMERICAN RECOVERY AND
REINVESTMENT ACT: THE
CITY SUCCESSFULLY
IMPLEMENTED WORKFORCE
DEVELOPMENT, STREET
RESURFACING, AND
AIRPORT IMPROVEMENT
PROJECTS**

**Report 11-07
August 2011**



Office of the City Auditor
Sharon W. Erickson, City Auditor

August 11, 2011

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

American Recovery and Reinvestment Act: The City Successfully Implemented Workforce Development, Street Resurfacing, and Airport Improvement Projects

As of June 30, 2011, the City had spent \$67.4 million of American Recovery and Reinvestment Act (ARRA) funds, of which \$62.9 has been reimbursed by federal, state, or county agencies. The City was awarded \$110.8 million in ARRA grants overall. The remaining funds are anticipated to be spent through the spring of 2013.

This is the third ARRA-related audit conducted by the Office of the City Auditor. The objectives of this audit were to determine whether outside agencies have found concerns with the City's management of ARRA programs and assess results for ARRA-funded workforce development, street resurfacing, and airport capital projects that are completed or nearing completion.

Outside agency reviews and audits have not identified disallowed uses of ARRA funds which require repayment to federal agencies. The City's ARRA-funded programs have seen a substantial number of compliance reviews or audits by outside federal, state and county agencies. Each of the City Departments that received ARRA funds have had at least one audit, review, or monitoring visit in the last two years; some have had multiple reviews. The completed compliance reports issued to date by outside agencies have not identified disallowed uses of ARRA funds which would require repayment to federal agencies.

Work2future has successfully implemented several ARRA-funded programs. Work2future, a division of the City's Office of Economic Development, has spent \$14.4 million of the \$17.1 million in ARRA grants it was awarded to provide workforce development programs to the San José/Silicon Valley region, including summer youth employment programs, assistance to adult and displaced workers, and other programs. Work2future has spent 100 percent of its Workforce Investment Act-funded adult, dislocated worker, and youth ARRA awards, as well as its Rapid Response grant funding. Work2future also completed a Temporary Assistance for Needy Families' funded Summer Youth Employment Program. ARRA funds allowed work2future to serve 5,000 adults and dislocated workers and provide summer employment to 1,700 youth. In general, work2future met its service delivery and performance goals for its ARRA-funded programs and was able to deliver services under short time frames and within grant timelines.

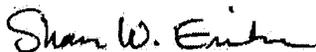
The City's Department of Transportation (DOT) achieved expected outcomes on-time and under-budget. The City spent \$13.6 million in ARRA funding to resurface 25 miles of streets which would extend their useful lives by 20 years. DOT completed the project on-time and under-budget. However, ARRA funding enabled the City to improve only 1 percent of the City's total 2,370 miles of streets (425 miles of which DOT has estimated to be in poor condition). Despite the ARRA-funded resurfacing, the City's pavement maintenance backlog continues to grow (currently it is at \$264 million).

The Airport successfully completed two capital improvement projects with ARRA funding. The Airport spent \$14.4 million in ARRA funds for a new checked baggage inspection system for Terminal B that included explosive detection equipment. The Airport was piloting a new technology with this system, which became fully operational in June 2010. The system was successfully installed on-time and under-budget (the original Transportation Security Administration award totaled \$20.9 million). Because the grant's scope of services was very narrowly defined, the Airport was unable to rebudget the remaining funds to other projects.

The Airport also spent \$5.2 million in ARRA funds as part of the Phase I extension of Taxiway W on the west side of the Airport to support future general aviation operations. The total project cost was \$7.8 million. Construction of Phase I was completed on-time; however project close out was delayed because of a contractor dispute which has since been resolved.

I will present this report at the August 18, 2011 meeting of the Public Safety, Finance, and Strategic Support Committee. We would like to thank staff from the City Manager's Office, work2future, the Department of Transportation, Mineta San José International Airport, the Finance Department, and other departments with ARRA programs for giving their time, information, insight and cooperation during the audit process. We would like to commend them for the results they have achieved with ARRA funding. We have no further recommendations at this time.

Respectfully submitted,



Sharon W. Erickson
City Auditor

finaltr
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Introduction

In accordance with the City Auditor's 2010-11 Work Plan, we have completed an audit of American Recovery and Reinvestment Act (ARRA) spending and results. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The Office of the City Auditor thanks the management and staff from the City Manager's Office, work2future, the Department of Transportation, Mineta San José International Airport, the Finance Department, and other departments with ARRA programs for giving their time, information, insight, and cooperation during the audit process.

Background

To address the nationwide economic downturn, President Obama signed ARRA into law on February 17, 2009. At the time, the City of San José's (City) unemployment rate was 10.8 percent, nearly double the 5.5 percent rate from February 2008. At the time, there were nearly 50,000 unemployed individuals in the City (more than double the number one year earlier).

ARRA's goals were to preserve and create jobs, promote economic recovery, assist those most impacted by the recession, invest in improvements to the nation's infrastructure, and help stabilize state and local government budgets. Funds were made available to local governments through grants administered by federal agencies. ARRA included specific rules to ensure that funds are used for appropriate purposes, are transparent to the public and instances of waste, fraud, and abuse are minimized. This is the third audit related to the City's ARRA programs conducted by the Office of the City Auditor.

The City Has Spent More Than \$67 Million in ARRA Funds

As of June 30, 2011, the City had spent \$67.4 million of ARRA funds, of which \$62.9 million has been reimbursed by federal, state, or county agencies. Awards to date total \$110.8 million and are being administered by several City departments. The remaining funds are anticipated to be spent and reimbursed through the spring of 2013.

American Recovery and Reinvestment Act

The City is both a prime recipient of grant funds (i.e., it receives funds directly from federal agencies) and a subrecipient (i.e., funds are passed through the state or county). For example, the City's Housing Department received ARRA grants directly from the federal Department of Housing and Urban Development for housing-related programs, whereas the City's Police Department received two ARRA grants from the California Emergency Management Agency (which originated with the federal Department of Justice). Of the \$110.8 million in grant awards, the City is a prime recipient for \$75.7 million and a subrecipient for the remaining \$35.1 million.

A key distinction between prime and subrecipients is that prime recipients are responsible for quarterly reporting of grant activity to the federal ARRA website.¹ Also, prime recipients must monitor subrecipients' use of funds and collect job creation data from them to meet the ARRA reporting requirements.

ARRA grants have funded programs and projects across the City and in many program areas including energy, water, transportation, housing assistance, and public safety. The City Manager's Office (CMO) provides the City Council (Council) with quarterly updates on the City's ARRA efforts. Exhibit I shows total ARRA awards and activity by City department for all ARRA grants, including those where the City is a prime recipient and a subrecipient. ARRA has funded 1,050 jobs in the city through June 30, 2011.²

¹ www.recovery.gov

² For ARRA purposes, a job is equal to one full-time equivalent position funded by ARRA grants and includes City jobs as well as those by companies contracted to carry out ARRA activities.

Exhibit I: ARRA Awards and Program Activity by City Department (Expenditures, Reimbursements and Jobs through June 30, 2011)

City Department	Awards (\$millions)	Expenditures (\$millions)	Reimbursements (\$millions)	ARRA-Funded Jobs to Date	Project Activities ³
Housing	\$31.8	\$10.7	\$8.2	119	<ul style="list-style-type: none"> • CDBG-R program to fund multiple activities including storm drain improvements, installing energy efficient LED streetlights, and job training and employment services to homeless and at-risk individuals. • Funding for homeless prevention, rapid re-housing financial assistance and housing relocation services. • Funding to reduce the number of foreclosed and abandoned homes and residential properties (in partnership with the Housing Trust of Santa Clara County and Neighborhood Housing Services Silicon Valley).
Airport	26.1	19.6	19.6	107	<ul style="list-style-type: none"> • Completed construction on a taxiway improvement project. • Installed a new explosive detection baggage system in the new Terminal B.
Environmental Services	17.7	7.4	5.9	137	<ul style="list-style-type: none"> • Multiple projects related to energy efficient and solar technologies. These will include installing LED streetlights, increasing energy efficiency of City facilities, and activities to support solar energy at City facilities and residents. • Funding for the development of a Local Energy Assurance Plan for all City facilities and a revision of the City's Emergency Operations Plan to address energy planning and preparedness. • Funding for the expansion of recycled water infrastructure as part of the South Bay Water Recycling Program
Office of Economic Development – work2future	17.1	14.4	14.3	606	<ul style="list-style-type: none"> • Provided employment and training services to adult, youth, and dislocated workers (including placing two cohorts of participants into jobs through the Summer Youth Employment Program that served 1,700 youth).
Transportation	15.4	13.6	13.2	72	<ul style="list-style-type: none"> • Resurfaced 25 miles of City streets.
Police	2.7	1.8	1.7	9	<ul style="list-style-type: none"> • Funding to support and enhance the Police Department's Internet Crimes Against Children, Anti-Drug Abuse Enforcement, and Anti-Human Trafficking programs and partially fund the new Automated Field Reporting/Records Management System.
Total	\$110.8	\$67.4	\$62.9	1,050	

Note: Totals may not add due to rounding.

Sources: Finance Department, City Manager's Office, City Manager's Office quarterly ARRA-update memoranda to the City Council and www.sanjoséca.gov/RecoveryAct/

³ For complete information on project activity, see the City Manager's Office Quarterly Update memoranda at www.sanjoséca.gov/recoveryact/CityPublications.asp.

The City Auditor Has Issued Two Prior ARRA-Related Audits

In accordance with ARRA's call for continuous oversight of ARRA funds, this is the third ARRA-related audit conducted by the Office of the City Auditor. In June 2009, we assessed the City's readiness to receive ARRA funding, finding that the City was making appropriate progress toward establishing the necessary internal controls required to manage ARRA funds.⁴ In November 2009, we reported that the City had met the ARRA transparency and accountability requirements for quarterly reporting for activity through September 30, 2009.⁵

In the prior audits, we noted the following two issues to monitor and review for future audits.

- Because ARRA funds are available primarily on a reimbursement basis, it is important that reimbursement requests be timely to minimize the interest costs to the City. For the ARRA-funded programs in the three departments reviewed for this report (work2future, the Department of Transportation (DOT), and the Airport), it appeared that interest costs were minimized as a result of timely reimbursement requests.
- Administrative and oversight costs may be capped or unavailable if the state or another agency has already captured those costs as the prime recipient of the grant.⁶ As a result, the City had incurred \$163,750 in administrative costs through June 30, 2011 for which it could not seek reimbursement. Of that amount, \$136,140 was paid for out of the General Fund. Approximately \$97,000 of these costs were related to grants administered by the Police Department where the prime recipients (i.e., the state or Santa Clara County) captured the administrative costs available under three of the City's four public safety-related grants.

Audit Objective, Scope, and Methodology

The objectives of our audit were to determine whether outside agencies have found concerns with the City's management of ARRA programs and assess results for completed ARRA programs or projects or those nearing completion. In order to address these objectives, we performed the following:

- Reviewed grant agreements and contracts to determine scopes of work, program goals, and individual grant requirements.

⁴ City of San José City Auditor, *American Recovery and Reinvestment Act Preliminary Report on Internal Controls*, June 18, 2009, www.sanjoséca.gov/auditor/AuditMemos/0695/0695M.pdf.

⁵ City of San José City Auditor, *Review of American Recovery and Reinvestment Act First Quarterly Reports*, November 12, 2009, www.sanjoséca.gov/auditor/AuditMemos/0700/0700M.pdf

⁶ Administrative costs refer to staff costs and Citywide overhead that is applied using the City's indirect cost allocation plan developed by the Finance Department. Oversight costs refer to the oversight, reporting and auditing costs to meet ARRA-specific rules.

- Reviewed audit or monitoring reports issued by outside oversight agencies, correspondence between City staff and staff from outside agencies, and other available information regarding site visits, audits, or reviews by outside agencies. We reviewed outside agency audit or monitoring activity through June 28, 2011.
- Reviewed the City of San José Single Audit Reports for fiscal years (FY) 2008-09 and 2009-10 prepared by Macias Gini and O'Connell, LLP (MGO) and interviewed MGO staff.
- Reviewed expenditure and revenue entries in the City's Financial Management System from July 1, 2009 through June 30, 2011.
- Reviewed CMO quarterly ARRA-update memoranda to Council.
- Interviewed CMO and program staff.

For workforce development programs administered by work2future within the Office of Economic Development, we performed the following:

- Reviewed client case files, documentation of reimbursement requests to the California Employment Development Department (EDD), Board of Directors meeting agendas and memoranda to the Board, and work2future internal documents.
- Interviewed staff from EDD and the Santa Clara County Social Services Agency about their respective monitoring activities and site visits.

For the DOT street resurfacing project, we performed the following:

- Reviewed contractor invoices and payletters, inspector logs and tracking spreadsheets, before and after photographic evidence of work completed, documentation of reimbursement requests to the California Department of Transportation, memoranda to Council, and other internal documents.

For the Airport capital improvement projects, we performed the following:

- Reviewed contractor invoices and payletters, inspector reports and tracking spreadsheets, before and after photographic evidence of work completed, project close out documents, documentation of reimbursement requests to the Transportation Security Administration and the Federal Aviation Administration, memoranda to Council, and other internal documents.

The scope of our audit included activity from April 1, 2009 through June 30, 2011.

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Chapter I Outside Reviews and Audits Have Not Identified Disallowed Uses of ARRA Funds Which Require Repayment to Federal Agencies

SUMMARY

The City's ARRA-funded programs have seen a substantial number of compliance reviews or audits by outside federal, state, and county agencies. Each of the City Departments that received ARRA funds have had at least one audit, review, or monitoring visit in the last two years; some have had multiple reviews. As summarized below, the completed compliance reports issued to date by outside agencies do not contain findings related to disallowed uses of ARRA funds which would require repayment by the City. Similarly, the City's Single Audits for FYs 2008-09 and 2009-10 do not contain findings needing correction related to ARRA-funded programs.

There Have Been a Substantial Number of Compliance Reviews or Audits of City ARRA Programs by Outside Agencies

ARRA included heightened accountability requirements and rules to ensure uses of funds were transparent to the public. ARRA also called for continuous oversight of distributed funds to prevent fraud, waste, and abuse. As a result, the City's ARRA-funded programs have seen a substantial number of compliance reviews or audits by outside federal, state, or county agencies in addition to the reviews by our office. For example, more than half of the ARRA-funded programs (accounting for more than 85 percent of the City's total ARRA awards) have been reviewed or audited or have been visited by an outside agency for compliance purposes.

Several of the completed compliance reports issued to date by outside agencies contain findings. However, we found that they were generally administrative in nature, related to such items as maintaining proper recordkeeping and the timeliness of activities. The reports do not contain findings related to disallowed uses of ARRA funds which would require reimbursement by the City to the granting agency. See Exhibit 2 for a summary of outside compliance reviews or audits of the City's ARRA-funded programs.

Exhibit 2: Summary of Outside Compliance Activity for Each of the City's ARRA-funded Programs

Grant Program	Award	Audit, Review or Monitoring Visit	Monitoring Agency	Description	Findings/Comments
Housing:					
Community Development Block Grant - ARRA	\$2,700,463	None to date			
Homelessness Prevention and Rapid Re-Housing Program	\$4,128,763	None to date			
Neighborhood Stabilization Program 2	\$25,000,000	May 2011	United States Department of Housing and Urban Development	Review of compliance with program progress.	Report pending.
Airport:					
Terminal B Checked Baggage Screening Project	\$20,916,360	1. May 2010 2. April 2011 - June 2011	United States Department of Homeland Security, Transportation Security Administration (TSA)	1. Review of quality of data submitted by recipients of ARRA funds. 2. Review of costs invoiced by the City.	1. No report issued, however TSA staff provided a recommendation to improve City's reporting. 2. Report pending.
Taxiway W Extension	\$5,178,291	None to date			
Environmental Services (ESD):					
Energy Efficiency and Conservation Block Grant (EECBG)	\$8,840,600	1. June 2010 2. November 2010	1. United States Government Accountability Office 2. United States Department of Energy	1. Visit to discuss uses of EECBG funds as part of the GAO's bimonthly report on the uses of ARRA funds by selected states (see page 11 for more information on this visit). 2. Routine monitoring visit to assess compliance with program requirements.	1. No findings. 2. There were no significant findings from the onsite review and no corrective actions requested. The DOE did note that the City had not met an early spending goal (i.e., 20% by Sep-10); however City staff believes they are on target to spend all of the funds by the grant end date of December 2012.
Local Energy Assurance Planning Initiative	\$299,983	None to date			
Solar Market Transformation	\$1,301,636	Scheduled for spring of 2011, postponed	United States Department of Energy		

Grant Program	Award	Audit, Review or Monitoring Visit	Monitoring Agency	Description	Findings/Comments
ESD (continued):					
Better Buildings Program	\$750,000	None to date			
SBVVR Phase I Facilities Improvements	\$6,460,000	July 2010 and December 2010	United States Department of Interior, Bureau of Reclamation	Financial assistance reviews to ensure expenditures were proper according to the agreement.	No reports issued. According to ESD and CMO staff, there were no findings or concerns noted by Bureau of Reclamation staff.
OED - work2future:					
WIA - multiple programs (subrecipient of the state)	\$13,800,146	Multiple visits (September 2009, February 2010, May 2010, January 2011 and February 2011)	California Employment Development Department (EDD)	Regular monitoring reviews covering adult, dislocated worker, and youth programs; financial management; procurement systems; and data quality.	General finding for each review was that overall work2future is meeting applicable WIA/ARRA guidelines. However, the reviewers did note a few instances of noncompliance. These were primarily related to missing documentation in individual case files. Work2future responded with corrective action plans and additional documentation. Final resolution of any open items will occur upon verification of corrective action upon future visit by EDD monitors.
Temporary Assistance to Needy Families (TANF) - Emergency Contingency Fund (subrecipient of the county)	\$2,458,225	July 2010	Santa Clara County Social Services Agency	Mid-year review of program.	Report indicated that work2future was complying with the terms of the grant and meeting its service delivery goals.
Wagner-Peyser Disability Program Navigator (subrecipient of the state)	\$99,072	None to date			
On-the-Job Training National Emergency Grant (subrecipient of the state)	\$725,462	None to date			

American Recovery and Reinvestment Act

Grant Program	Award	Audit, Review or Monitoring Visit	Monitoring Agency	Description	Findings/Comments
Transportation:					
Street Resurfacing (subrecipient of the state)	\$15,419,000	1. November 2010 2. June 2010 - early 2011	1. California Department of Transportation (Caltrans) 2. California State Controller's Office	1. ARRA Construction Review 2. Audit of the City's financial management system relative to projects funded by Caltrans with ARRA funds.	1. Several findings related to recordkeeping and timeliness of certain activities. According to DOT staff, they have proposed corrective actions to Caltrans and are awaiting closure of these findings. 2. Report pending.
Police:					
Internet Crimes Against Children (ICAC)	\$863,930	December 2009	United States Department of Justice	Financial monitoring and assistance visit for multiple grants including the ICAC grant (the others were non-ARRA grants).	One finding not related to this grant was closed as a result of the City's response to the concerns raised by the Department of Justice.
Anti-Drug Abuse Enforcement Program (subrecipient of the county)	\$136,395	None to date			
Cal EMA Anti-Human Trafficking Task Force (subrecipient of the state)	\$375,000	February 2011	California Emergency Management Agency	Performance assessment review, the purpose of which was to assess project conditions and compliance, identify issues and provide technical assistance.	There were no findings in the performance assessment/site visit report.
Justice Assistance Grant (subrecipient of the county)	\$1,353,687	October 2010	Santa Clara County	According to staff, this was an informal visit to ensure project was moving forward.	Per City staff, no report issued.

Source: Auditor analysis based on review of outside oversight reports and interviews with City staff

The GAO Reviewed the City's Uses of ARRA Funding

ARRA required the federal Government Accountability Office (GAO) to report bimonthly on the use of ARRA funds by selected states, including California. In June 2010, the GAO visited the City in connection with one of its bimonthly reviews. This was not a compliance audit; it was described by GAO staff as an effort to get a sense in the field of what is going on with ARRA funds. The GAO issued its report in September 2010.⁷ It highlighted specific uses of ARRA funding in the City, the City's budget issues, and the City Auditor's oversight work to date.

The City Has an Annual Single Audit Which Focuses on Compliance with Laws and Regulations Governing Federal Awards

ARRA expenditures are also subject to the City's annual Single Audit conducted by the independent certified public accounting firm Macias Gini and O'Connell LLP (MGO). The Single Audit is an organization-wide financial and compliance audit required of local governments expending more than \$500,000 of federal awards. The Single Audit is intended to promote sound financial management, including effective internal controls, and focuses on recipients' compliance with laws and regulations governing federal awards.

Because ARRA programs were just beginning at the end of FY 2008-09, a small amount of ARRA spending (\$272,697) was covered in that year's Single Audit. MGO reported no findings related to ARRA expenditures or programs for that year. For FY 2009-10, \$36.8 million of ARRA expenditures were covered by the Single Audit. This was 25 percent of the City's total federal grant expenditures for the year. Once again, MGO reported no findings related to ARRA expenditures or programs.⁸

⁷ Government Accountability Office, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*, September 2010, www.gao.gov/new.items/d10999.pdf, California Appendix, www.gao.gov/recovery/pdfs/2010-september/gao-recovery-september-2010-ca-appendix.pdf.

⁸ *City of San José, California Single Audit Reports for the Year Ended June 30, 2009*, www.sanjoséca.gov/auditor/External/2009/SJ%20SingleAuditFY09.pdf; *City of San José, California Single Audit Reports For the Year Ended June 30, 2010*, www.sanjoséca.gov/auditor/External/2010/SJSingleAuditFY10.pdf.

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Chapter 2 Work2future Has Successfully Implemented Several ARRA-Funded Programs

Summary

Through June 30, 2011, work2future has spent \$14.4 million of the \$17.1 million in ARRA grants it was awarded to provide workforce development programs to the San José/Silicon Valley region. These include summer youth employment programs, assistance to adult and displaced workers, and other programs. Work2future has spent 100 percent of its WIA-funded adult, dislocated worker, and youth ARRA awards as well as its Rapid Response grant funding. Work2future also completed a Temporary Assistance for Needy Families (TANF) funded Summer Youth Employment Program. ARRA funds allowed work2future to serve 5,000 adults and dislocated workers and provide summer employment to 1,700 youth. In general, work2future met its service delivery and performance goals for its ARRA-funded programs and was able to deliver services under short time frames and within grant timelines.

Work2future Has Spent \$14.4 Million in ARRA Funds on a Variety of Programs

Work2future has spent \$14.4 million of the \$17.1 million in ARRA funds it was awarded on a variety of workforce development activities. The \$14.4 million was spent in the following programs:

- \$6.5 million for adult and dislocated worker programs.
- \$4.7 million to provide paid work experience in the summer of 2009 for low-income youth ages 15-24. Work2future was able to continue the program for select youth to focus on work experience and leadership development.
- \$1.5 million for work2future's Rapid Response program activities.
- \$1.4 to provide jobs and training for youth during the summer of 2010 through a TANF grant through Santa Clara County (County).
- \$99,072 to fund a Disability Program Navigator position and assistive technology equipment for customers with disabilities.
- \$55,511 from two Exemplary Awards for meeting prior year performance goals (as part of the EDD's State Incentive Program).
- \$79,612 for an On-the Job Training program.

In May 2011, work2future also received a \$985,000 Transition Support Training Grant for training, workshops, and supportive services for additional dislocated worker clients. Spending on this grant has not yet begun. Work2future has until December 31, 2011 to spend the allocation; however, work2future plans to request an extension to June 30, 2012.

Work2future Provides Job Training and Workforce Development Activities to San José and its Surrounding Communities

Since July 2000, the City, through work2future, has acted as the local administrative and fiscal agent for federal funds received from the US Department of Labor (DOL) Workforce Investment Act (WIA).⁹ Located within the City's Office of Economic Development, work2future provides workforce development activities for the San José/Silicon Valley local workforce investment area, which is comprised of the City of San José and the surrounding communities of Campbell, Gilroy, Los Altos Hills, Los Gatos, Monte Sereno, Morgan Hill, Saratoga, and unincorporated areas of Santa Clara County.

Exhibit 3 shows the total labor force, total unemployed persons, and unemployment rates for the local workforce investment area since 2006. As can be seen, the number of unemployed persons and unemployment rate rose significantly during the recent economic downturn.

Exhibit 3: Total Labor Force, Unemployed Persons and Unemployment Rate in the Local Workforce Investment Area

Year	Labor Force	Unemployed Persons	Unemployment Rate
2006	564,200	27,700	4.9%
2007	579,000	29,600	5.1%
2008	596,700	38,800	6.5%
2009	603,300	71,200	11.8%
2010	602,900	73,100	12.1%
May, 2011	596,400	63,000	10.6%

Source: California Employment Development Department

⁹ The 1998 Workforce Investment Act (WIA) funds a range of workforce development activities through statewide and local organizations. Available workforce development activities provided in local communities can benefit job seekers, laid off workers, youth, incumbent workers, new entrants to the workforce, veterans, persons with disabilities and employers. The purpose of these activities is to promote an increase in the employment, job retention, earnings and occupational skills improvement by participants. WIA is the main source for work2future funding. WIA funding does not come directly from the DOL to work2future; it is passed through EDD.

ARRA Funding Augmented Existing Programs

Work2future's existing WIA funding is allocated to the following programs:

- Adult and dislocated worker¹⁰ program services including career exploration and planning/one-on-one coaching; community resource/referral information; comprehensive assessments and individual employment plans; internet and telephone access to job-related services; internships; job fairs and specialized recruitments; access to job listings and labor market information; occupational skills training and supportive services; and job readiness, computer, and professional development workshops.
- Youth program services including youth job training in various fields; work readiness skills development; job placement assistance; and career guidance and assessment.
- In addition, work2future provides Rapid Response services and training for laid-off dislocated workers. The purpose of the Rapid Response program is to assist workers and employers who are facing layoffs and reduce the impact of layoffs on workers, employers, and the community.¹¹

Work2future Generally Met the Service Delivery and Performance Goals for its ARRA-Funded Programs

In general, work2future was able to meet its service delivery goals for its ARRA-funded workforce development programs and spent ARRA funds within the grant timelines. In addition, work2future was able to implement its programs within short timeframes. See Appendix B for a timeline of the City's ARRA-funded workforce development activities, including award dates and activities.

Exhibit 4 summarizes each ARRA grant by program, expenditures, service delivery goals, and actual outcomes.

¹⁰ For WIA purposes, an adult is defined as a low-income, long-term unemployed person facing barriers to employment. A dislocated worker is an individual with a salary and job history who has been terminated or laid off or has received a notice of termination or layoff.

¹¹ Between April 2008 and March 2009 (i.e. the twelve months prior to receipt of ARRA funding), work2future Rapid Response staff was in contact with 85 businesses expecting layoffs. These businesses ultimately laid off more than 9,000 individuals over that period.

American Recovery and Reinvestment Act

Exhibit 4: Summary of Work2future ARRA-Funded Programs (Through June 30, 2011)

Grant Program	Award	Expenditures	Service Delivery Goals	Actual Outcomes	Auditor Comments
WIA Adult and Dislocated Worker	\$6,474,503	\$6,474,503	<ul style="list-style-type: none"> Augment current programs, including providing new supportive services and occupational training to serve an additional 1,500 to 2,000 adult and dislocated workers combined 	From July 2009 through March 2011, served 2,266 adults and 2,701 dislocated workers, totaling 5,067 total enrollments	None
WIA Youth	\$4,744,413	\$4,744,413	<ul style="list-style-type: none"> Provided 1,000 to 1,200 summer jobs 	From June 2009 through March 2011, served 1,067 youth	None
WIA Rapid Response	\$638,390	\$638,390	<ul style="list-style-type: none"> Personnel costs for additional staff to assist with activities related to layoff aversion, business outreach and business closures; client layoff workforce materials; and professional services 	<ul style="list-style-type: none"> From April 2009 to March 2011, contacted 124 businesses that laid off 7,593 total workers Contracted 3 labor market studies¹² <ol style="list-style-type: none"> Small Business Enterprise Study (January 2011) Rapid Response Study (February 2011) Emerging Industry and Technology Sectors in Silicon Valley's Green Economy: Workforce Implications (March 2011) 	None
WIA Rapid Response Additional Assistance	\$902,329	\$902,329	<ul style="list-style-type: none"> Provide training services, workshops, and case management services to dislocated workers. Conducted a study of Silicon Valley's Information Technology sub-sectors 	<ul style="list-style-type: none"> Provided training service to 48 dislocated worker clients, 821 workshop hours and additional one-on-one case management service Contracted with a consultant to provide the Silicon Valley Information Technology study 	None

¹² The studies can be found at www.work2future.biz/content/labor-market-information_research-studies-and-reports/.

Grant Program	Award	Expenditures	Service Delivery Goals	Actual Outcomes	Auditor Comments
Temporary Assistance for Needy Families (TANF)	\$2,458,225	\$1,389,518	840 summer jobs to 15-17 year olds in Santa Clara County (with an anticipated retention rate of 75%)	From May 2010 through September 2010, enrolled 654 youth participants with 604 completing program (92% retention rate)	<ul style="list-style-type: none"> • Work2future received grant funds for actual expenses on a reimbursement basis and did not spend \$900,000 of the award. According to work2future, the outreach conducted through the CalWorks program resulted in lower than anticipated enrollment and many of the participants were unable to work their full schedule due to prior school commitments. • An incorrect methodology for calculating overhead resulted in a misallocation of \$99,000 to this grant. This has since been corrected. • Work2future incurred \$9,000 in costs which could not be reimbursed. This was a result of the County moving forward the final billing date prior to completion of the program.
WIA Wagner-Peyser	\$99,072	\$99,072	Staff costs (Disability Program Navigator position) and assistive technology equipment to assist clients with disabilities	Between June 2010 and June 2011, filled Disability Program Navigator position and purchased assistive technology equipment	None
WIA Exemplary Awards (2)	\$55,511	\$55,511	<ul style="list-style-type: none"> • Consultant – work2future new business model • Work2future staff workforce certification 	Between September 2010 and June 2011, hired consultant to assist with work2future's new business model and obtained work2future staff workforce certifications	<ul style="list-style-type: none"> • Work2future was not accounting for expenditures on one award in the memo fund set up to track ARRA activity. Work2future has since corrected for this error. • \$3,000 of costs were misallocated to one ARRA award. These costs have since been reallocated to a different WIA funding source.
WIA On-the-Job Training	\$725,462	\$79,612	On-the-job training reimbursements to participating non-public sector employers hiring dislocated workers	Program activities started September 2010 and will run through June 2012. Less than 12% of funds expended through June 2011.	None
WIA Transition Supplemental Support Training	\$985,000	\$-0-	Training, workshops, and supportive services for additional worker clients	Grant awarded in May 2011. Funding available through December 2011. Work2future plans to submit a request for an extension to June 2012.	None

Source: Auditor analysis based on review of grant document and contracts, Financial Management System data, Council memoranda, work2future internal documents, external monitoring reports, and staff interviews

Work2future Met its Performance Goals For its ARRA-funded Adult, Dislocated Worker and Youth Programs

Local workforce investment areas are required to meet at least 80 percent of certain annual performance goals as negotiated with the EDD. Those areas not meeting at least 80 percent of the performance level will be offered technical assistance. Non performance on one or more of the same performance measures in two consecutive years may result in sanctions.

Exhibit 5 shows the state-mandated performance goals for the 2009-10 program year along with actual outcomes. Since the ARRA funds allocated to the adult and dislocated worker programs supplemented their regular WIA funding, participants were typically co-enrolled in both regular WIA- and ARRA-funded activities. Therefore, ARRA participant performance was not tracked separately and there were no separate performance measures. However, ARRA participant performance was tracked for the youth program.

Exhibit 5: Performance Measure Goals and Outcomes for 2009-10

Program	Performance Measure Goals	Actual Outcomes	% of Goal
Adult	44% Entered Employment 76% Employment Retention \$13,000 Average Earnings	43% Entered Employment 75% Employment Retention \$17,211 Average Earnings	99% 98% 132%
Dislocated Worker	52% Entered Employment 83% Retained Employment \$16,500 Average Earnings	42% Entered Employment 85% Employment Retention \$16,907 Average Earnings	80% 102% 103%
Youth	69% Placement in Employment/Education 65% Attainment of Degree/Certification 40% Gains in Literacy/Numeracy	72% Placed in Employment/Education 79% Attained Degree/Certification 75% Gains in Literacy /Numeracy	104% 122% 188%

Note: Local workforce investment areas are required to meet at least 80 percent of their performance goal.

Source: California Employment Development Department

Exemplary Performance Awards

States are required to reserve funds for incentive grants to local areas for regional cooperation among local boards and local coordination of WIA activities, and exemplary performance by local areas on performance measures. To receive a full exemplary performance award, a local area must meet or exceed its performance goals for all of the measures in each of the three WIA client groups (i.e., adults, dislocated worker, and youth). A local area may receive a partial award for meeting or exceeding all of the performance goals in any one of the client groups. As a result of meeting its performance measures in 2007-08 and 2008-09, work2future received full ARRA-funded incentive awards totaling \$55,511 (to be used for allowable costs under WIA).

Chapter 3 DOT Achieved Expected Outcomes On-Time and Under-Budget

Summary

The City spent \$13.6 million in ARRA funding to resurface 25 miles of streets which would extend their useful lives by 20 years. DOT completed the project on-time and under-budget. It is important to note, however that ARRA funding enabled the City to improve only 1 percent of the City's total 2,370 miles of streets. Moreover, despite the ARRA-funded resurfacing, the City's overall pavement maintenance backlog continues to grow (currently it is at \$264 million).

The Department of Transportation Used ARRA Funds to Resurface 25 Miles of City Streets

DOT is responsible for maintenance and repair of approximately 2,370 miles of City street pavement. In an October 2010 memorandum, DOT stated that more than 2,000 miles of City streets are more than 30 years old and 425 miles of City streets are in poor condition—a number that could grow to 1,275 by the year 2020 if additional funding for maintenance is not identified.

In April 2009, the City applied to the Bay Area Metropolitan Transportation Commission for \$12.7 million in ARRA funding for street resurfacing (later referred to as Tier 1). In June 2009, the City applied for additional funding and was awarded \$2.7 million (Tier 2), for a total of \$15.4 million for street resurfacing from ARRA. Street resurfacing is the application of asphalt over existing pavement to smooth and strengthen the road.

Favorable Bidding Environment Allowed Resurfacing More Streets

The winning bid for the Tier 1 project was several million dollars less than the City project engineer's cost estimate. The City was able to use \$3.4 million of savings from that grant to resurface six additional miles of streets in the Tier 2 project. As a result, \$6.1 million was available for Tier 2, of which \$5.4 million was budgeted for construction and contingency and the remaining \$700,000 was budgeted for the City's project delivery costs.

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The Tier 1 budget consisted of \$8.5 million for construction and contingency, and \$1.2 million for City project delivery.¹³ DOT initially planned to resurface Tier 1 streets from July 2009 to December 2009, and Tier 2 streets from June 2010 to April 2011, pending advantageous weather conditions and contractor availability. The expected outcome from these projects was to be about 25 miles of streets resurfaced to extend their useful lives by 20 years.

Exhibit 6 shows that work began on Tier 1 streets in late September 2009 and was substantially completed in August 2010 while work on Tier 2 streets began in May 2010 and was substantially completed in January 2011. Although Tier 1 work was delayed by inclement weather in early 2010 and completed later than initially planned, its completion was well within the grant's timeliness requirements.¹⁴

Exhibit 6: Timeline of Recovery Act Street Resurfacing

	March 2009	June 2009	Sept. 2009	Dec. 2009	March 2010	June 2010	Sept. 2010	Dec. 2010	March 2011	June 2011
February 2009 President signs ARRA										
April 2009 City applies for funding										
			September 2009 Tier 1 work begins			August 2010 Tier 1 complete				
						May 2010 Tier 2 work begins		January 2011 Tier 2 complete		

Sources: City Recovery Act status update memoranda, expenditure records, and progress payments

DOT inspection records show that it achieved expected outcomes with ARRA funds. Major construction activities for the approximately 15 miles of Tier 1 resurfacing included sections of Alma Avenue, Almaden Expressway, Branham Lane, Cropley Avenue, Foxworthy Avenue, Silver Creek Road, Snell Avenue, Taylor Street, Tully Road, White Road, and Willow Street. The 10 miles for Tier 2's major construction activities included sections of Bascom Avenue, Calero Avenue, Humboldt Street, Julian Street, Mabury Road, Mt. Pleasant Road, Park Avenue, Snell Avenue, Westmont Avenue, and White Road.

Exhibit 7 shows one example of ARRA-funded street resurfacing.

¹³ The City budgeted about \$500,000 in City funds for these street repair projects, which bridges the gap between \$15.4 million in ARRA funds and \$15.8 million in budgeted project costs. Project expenditures include about \$90,000 for reserve police officers to control traffic around construction sites – the City Auditor's Office is currently auditing the San José Police Department's oversight of such secondary employment of its officers (i.e. other employment outside normal working hours).

¹⁴ As of June 2011, DOT had not completed grant close-out documentation needed to officially end the projects because of a minor dispute with one of the contractors about which it is actively seeking resolution.

Exhibit 7: Before and After Photographs of Willow Street



Willow Street before
street resurfacing (Tier 1)



Willow Street after
street resurfacing (Tier 1)

Source: City Recovery Act website, <http://www.sanjoséca.gov/recoveryact/>

In addition, as of June 2011, the combined Tier 1 and Tier 2 projects were nearly \$1.8 million under-budget—with about half of the savings from project delivery costs such as general overhead, and City engineering and planning. Total administration and project delivery costs as of June 2011 were about \$1.4 million out of a budgeted amount of \$2.1 million (the maximum allowable was 15 percent of the \$15.4 million in funding).¹⁵ The City was not able to use these savings to resurface more miles of City streets because of ARRA funding rules, but it was able to transfer \$800,000 saved from Tier 1 to the regional Route 880/237 project in the South Bay.

The Continuing Problem of Funding Street Repair

Although DOT achieved desired outcomes on-time and under-budget and the affected streets showed substantial improvement, it is important to note that ARRA funding was only able to improve 25 miles of pavement. This represents only about 1 percent of the City's total 2,370 miles of streets. Moreover, despite the ARRA-funded resurfacing, the City's overall pavement condition did not improve because the City's streets are deteriorating while the pavement maintenance backlog is growing.

For many years pavement maintenance has been under-funded, resulting in a one-time deferred pavement maintenance backlog of more than \$250 million according to the City's 2011-12 proposed operating budget. Deferring maintenance results in much higher costs in the future. As the backlog has grown, the overall condition of City streets has declined—according to budget documents, about 93 percent of City streets were in good condition (i.e., rated

¹⁵ Pending acceptance of the City's indirect cost plan by the United States Department of Housing and Urban Development (HUD) and Caltrans. The City submitted the indirect cost plan to HUD in June 2011.

between fair and excellent) in FY 2002-03, but by FY 2008-09 the percentage had dropped to 80 (a methodology change raised the percentage to 82 in 2009-10). Overall, the City scores about 64 on the 100-point Pavement Condition Index (PCI), which means the condition of the City's streets is "fair" and falls in the lowest third of Bay Area jurisdictions.¹⁶ Exhibit 8 illustrates the growth of the City's deferred pavement maintenance backlog, which grew \$2.4 million from October 2010 to June 2011.¹⁷

Exhibit 8: One-time Deferred Pavement Maintenance Backlog

Condition of City streets	October 2010		June 2011		Change	
	Miles	Conservative Cost	Miles	Conservative Cost	Miles	Conservative Cost
Good-Excellent (\$35,000-70,000 per mile)	950	\$33,250,000	904	\$31,640,000	(46)	(\$1,610,000)
Fair (\$85,000-110,000 per mile)	990	84,150,000	1,009	85,765,000	19	1,615,000
Poor (\$200,000-500,000 per mile)	285	57,000,000	309	61,800,000	24	4,800,000
Very Poor (\$500,000-800,000 per mile)	95	47,500,000	103	51,500,000	8	4,000,000
Failed (\$800,000-1,800,000 per mile)	50	40,000,000	42	33,600,000	(8)	(6,400,000)
Total	2,370	\$261,900,000	2,367	\$264,305,000	(3)	\$2,405,000

Source: Department of Transportation reports and ad hoc query

¹⁶ The City utilizes a pavement management system adopted by the Metropolitan Transportation Commission (MTC) for use by all Bay Area Region jurisdictions to provide critical information and analysis for managing their pavement maintenance programs. The system rates the condition of individual streets along with the average condition of all streets using a Pavement Condition Index (PCI) from zero to 100, with zero being a completely failed street to 100 being a new street in excellent condition. More information about Bay Area PCI scores can be found in the MTC's annual "pothole report" available at www.mtc.ca.gov/library/pothole_report/Pothole_Report_2011.pdf.

Chapter 4 The Airport Successfully Completed Two Capital Improvement Projects with ARRA Funding

Summary

The Airport spent roughly \$16.0 million for a new checked baggage inspection system for Terminal B that included explosive detection equipment. The Airport had an ARRA grant from the Transportation Security Administration (TSA) which covered 90 percent, or \$14.4 million, of the costs. San José was piloting a new technology with this system, which became fully operational in June 2010. The system was successfully installed on-time and under-budget (the original TSA award totaled \$20.9 million). Because the grant's scope of services was very narrowly defined, the Airport was unable to rebudget the remaining funds to other projects.

The Airport also spent \$5.2 million in ARRA funds as part of the Phase I extension of Taxiway W on the west side of the Airport to support future general aviation operations. The total project cost was \$7.8 million. Construction of Phase I was completed on-time; however project close out was delayed because of a contractor dispute which has since been resolved.

The Airport Installed a New Checked Baggage Inspection System Including Explosive Detection Equipment On-Time and Under-Budget

ARRA allocated \$1 billion to TSA within the Department of Homeland Security for procurement and installation of explosive detection systems and equipment to enhance airport security. San José was one of 25 airports across the nation to receive funding for facility modification projects to install checked baggage inspection systems which included integrated in-line explosive detection equipment. The system generally runs from passenger check-in through explosive detection screening to airlines' outbound baggage sortation area. From there bags are taken to be loaded onto airplanes.

The project, located in Terminal B, was an element of the Airport's Terminal Area Improvement Project. It involved terminal modifications including changes to baggage conveyor components and mechanical, plumbing, electrical, structural, and telecommunications infrastructure in order to install four explosive detection machines. The total project cost was estimated to be \$23,240,400. The agreement called for a 10 percent local share and a total not-to-exceed amount for the grant of \$20,916,360.

The explosive detection equipment to be installed was a new technology with greater expected throughput (i.e., bags through the system) than other systems. San José was a pilot for the new technology and design specifications had not yet been completely set by TSA. As a result, there needed to be much reprogramming of the equipment during installation for it to be fully functional. TSA picked up the extra costs associated with the risks of piloting a new technology.

The agreement with TSA was signed in September 2009 and the project was to be fully closed out by June 30, 2011. The system was fully operational in June 2010. According to the Airport, since that time it has continued to meet TSA throughput requirements. The grant was closed at the end of March 2011.

The final cost of the project totaled \$16.0 million, or \$7.2 million less than the original cost estimate. Because the grant only called for TSA to cover 90 percent of the costs, the Airport received reimbursements of approximately \$14.4 million¹⁸ (or \$6.5 million less than the grant not-to-exceed amount). Because the grant's scope of services was very narrowly defined, the Airport was unable to rebudget the remaining funds to other projects.¹⁹ Those funds remained with TSA to be reallocated to other projects. Exhibit 9 shows the installed explosive detection equipment.

Exhibit 9: Terminal B Explosive Detection System



Source: Mineta San José International Airport

¹⁸ Pending reconciliation between estimated and actual costs of the Airport's owner controlled insurance program.

¹⁹ According to the Airport, the original estimate was a high-cost estimate to reduce the Airport's exposure to the risks associated with installing a new technology without set design specifications.

Despite Successful Completion, Phase I of the Taxiway W Extension Was Delayed Because of a Contractor Dispute and Costs Were Slightly Higher than Expected

The Airport has a Multi-Year Plan to Extend Taxiway W on the West Side of the Airport

The City's 2009-13 Airport Capital Improvement Program included a series of major airfield improvement projects. One of those projects was an extension of Taxiway W on the west side of the Airport to support future general aviation operations, enhance the safety of movements of general aviation aircraft and reduce the risk of accidents on the airfield.

The project was split into five phases to allow the project to be considered for FAA Airport Improvement Program (AIP) funding over multiple years and thus improve its long-term chances for federal funding. The AIP provides grants to public agencies for improvements related to enhancing airport safety, capacity, security, and environmental concerns. The overall cost of the Taxiway W extension is projected to be \$68.2 million. The timing of project completion is contingent upon receipt of grant funding.

ARRA Partially Funded Phase I of the Taxiway W Extension

On August 7, 2009, the FAA awarded the Airport a \$5.2 million ARRA grant to partially fund Phase I of the Taxiway W extension. The FAA awarded the Airport a \$2.0 million AIP grant to further fund the project. The AIP grant included a local share requirement to be paid out of one of the Airport's Capital Funds. Phase I was to address safety concerns identified by the FAA's Runway Safety Action Team and extend Taxiway W from Taxiway C to Taxiway D, with a connector to the end of Runway 29. Construction was to include approximately 23,200 square yards of pavement, grading, drainage improvements, shoulder paving, and edge line lighting with expected costs totaling \$7,659,988. The breakdown of funding for Phase I construction is shown in Exhibit 10.

Exhibit 10: Funding for Phase I of the Taxiway W Extension

ARRA Grant	\$ 5,178,291
FAA AIP Grant	2,000,000
Local Share	481,697
Total	\$ 7,659,988

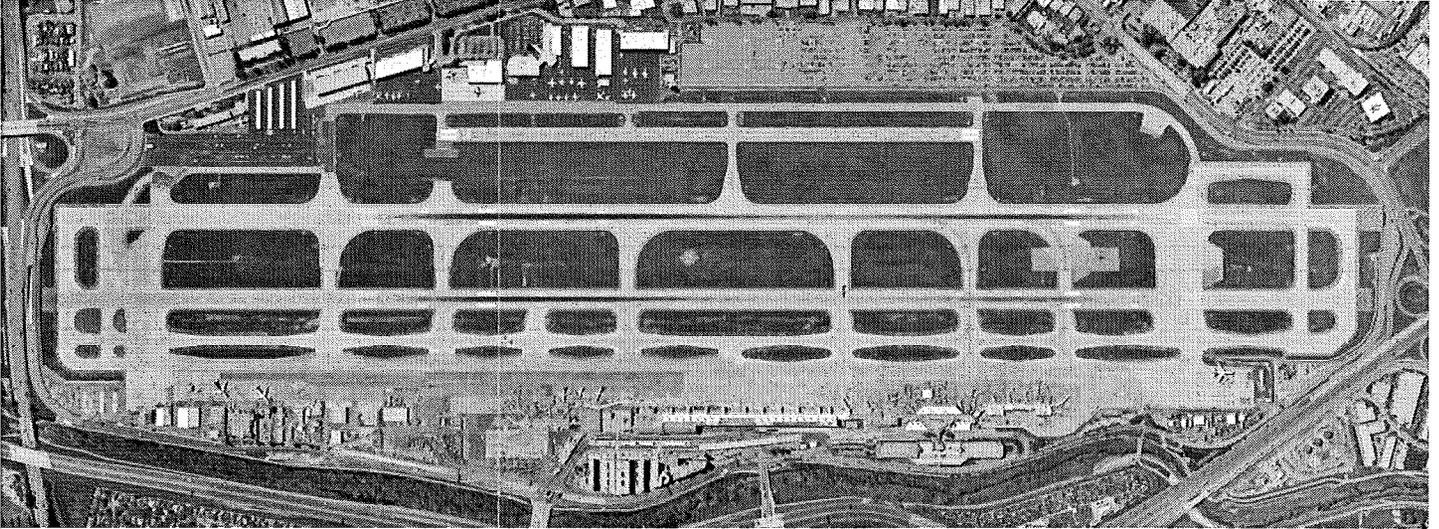
Source: Airport Revised FAA ARRA Grant Application, July 2009

The use of ARRA funds required that a contract be awarded within 15 days of the grant offer and a notice to proceed be issued to the contractor within 30 days of the offer. The Airport entered into contract with Granite Rock Company dba Pavex Construction (Pavex) on August 13, 2009 for Taxiway W Phase I

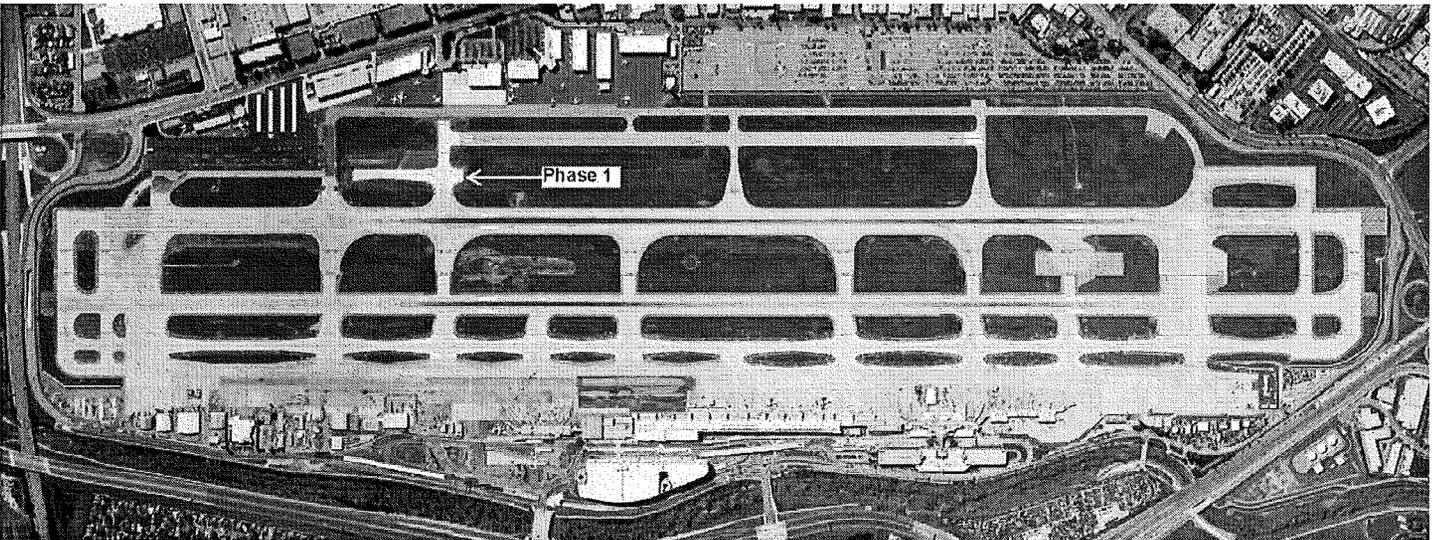
construction. The final award from the FAA reflected the actual cost of construction from Pavex's bid. Project construction began in September 2009. Exhibit 11 shows aerial photographs of the Airport prior to Phase I construction and during construction.

Exhibit 11: Aerial Photos of Airport Prior to and During Construction of Phase I of the Taxiway W Extension

February 2009 – Before Construction



March 2010 – During Construction



Source: Mineta San José International Airport

Initial construction was completed in May 2010, well in advance of the grant requirement that the project be completed and fully closed out by February 16, 2011. However, final project close out did not occur until July 2011. The reason for the delay was a contractor dispute regarding a section of the project.²⁰

During the course of construction there were a series of FAA-approved change orders which added to the overall project cost. There were also higher than expected oversight costs related to complying with the additional ARRA reporting and accounting rules. As a result, the costs allocable to the ARRA grant exceeded the original award by \$39,000. The ARRA grant provided that if there is an overrun in total allowable project costs, the FAA may increase the maximum grant obligation. Accordingly, the Airport has sought reimbursement for the overrun.

The Airport was required to receive approval of all change orders prior to work commencing. The Airport did receive approval for the relevant change orders; however approval was sometimes obtained after work had proceeded. This was because the Phase 1 project engineer had not previously worked with the FAA and was not familiar with its change order processes. By Phase 2 of the Taxiway W extension, the process had become formalized with the project engineer submitting to FAA a proposed change order and in return receiving the change order back with a stamp signifying FAA approval.

²⁰ During routine quality control testing, the Airport determined that sections of the pavement did not meet FAA-specified flexural strength requirements. Per FAA guidelines, Pavex and the Airport agreed to have the disputed sections retested with the provision that Pavex replace any portions that failed a second time. Because construction was occurring on a parallel taxiway at the time, Taxiway W could not be closed for retesting until early 2011. According to the Airport, the failure in the strength tests signified that the identified sections may not have as long of a lifespan as other sections which met FAA specifications rather than an immediate safety issue. Ultimately, six panels within the disputed sections were replaced after retesting. The FAA was made aware of the dispute and was kept apprised of the Airport's progress in resolving the issue.

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Conclusion

As of June 30, 2011, the City had spent \$67.4 million of ARRA funds, of which \$62.9 has been reimbursed by federal, state, or county agencies. The City was awarded \$110.8 million in grants overall. The remaining funds are anticipated to be spent through the spring of 2013.

To date, the City's ARRA-funded programs have seen a substantial number of compliance reviews or audits by outside agencies which have not identified disallowable uses of ARRA funds. The City also successfully implemented workforce development activities through work2future, street resurfacing projects through the Department of Transportation, and Airport improvement projects. We do not have any recommendations at this time.

Appendix A

Timeline of ARRA Workforce Development Activities

Program	Jan-June 2009	July-Dec 2009	Jan-June 2010	July-Dec 2010	Jan-June 2011	July-current 2011
	(February 2009) President signs Recovery Act					
Adult & Dislocated Workers	(April 2009) work2future receives ARRA award for adult and dislocated worker programs	(July 2009) Added 25% more workshops, extended hours, and added 12 staff; enrollment began in ARRA-funded programs			(March 2011) Grant end date; final expenditures incurred	
Youth	(April 2009) work2future receives ARRA award for summer youth program (June 2009) Summer youth program begins, conducted outreach to about 15,000 potential participants	(September 2009) Work Experience & Leadership Program begins for select youth participants	(May 2010) 2 nd summer youth program begins		(March 2011) Grant end date; final expenditures incurred	
Rapid Response	(April 2009) work2future receives 1 st Rapid Response allocation		(March 2010) work2future receives Rapid Response Additional Assistance allocation		(January-March 2011) labor market studies completed (March 2011) Grant end date; final expenditures incurred	
Summer Youth Employment TANF Grant			(March 2010) County awards grant (April 2010) Recruitment begins to CalWorks clients (June 2010) Summer youth workshop held	(September 2010) TANF Summer youth employment program ends		

Program	Jan-June 2009	July-Dec 2009	Jan-June 2010	July-Dec 2010	Jan-June 2011	July-current 2011
Exemplary Awards				(July 2010) work2future receives exemplary awards for meeting/excee ding its program performance measures for 2007-08 and 2008-09	(June 2011) Grant end date; final expenditures incurred	
Wagner- Peyser Grant (Disability Program Navigator)			(February 2010) work2future receives grant		(June 2011) Grant end date; final expenditures incurred	
On-the-Job Training Grant				(September 2010) work2future receives grant		Funding available through June 2012
Transition Supplemental Support Training Grant					(May 2011) work2future receives grant	Funding available through December 2011

Source: City Manager's Office quarterly update memoranda, memoranda to work2future Board of Directors, expenditure records, and progress payments

August 1, 2011

Sharon Erickson
City Auditor
200 E. Santa Clara Street
San José, CA 95113

Subject: City Administration Response to the City Auditor's Report - *American Recovery and Reinvestment Act: The City Successfully Implemented Workforce Development, Street Resurfacing and Airport Improvement Projects*

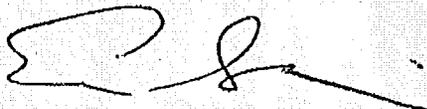
Dear Ms. Erickson:

City of San José staff have reviewed the final draft audit report *American Recovery and Reinvestment Act: The City Successfully Implemented Workforce Development, Street Resurfacing and Airport Improvement Projects*, and concur with your assessment and conclusion. Since the passage of the American Recovery and Reinvestment Act (ARRA) two years ago, City staff have worked collaboratively to ensure that programs funded by the ARRA are delivered in a timely fashion, while also meeting the specific rules that govern the use of ARRA funds. We are very proud of our accomplishments to date and are pleased that your independent review confirms our implementation of ARRA programs is meeting the many rules and requirements established by the ARRA. We look forward to continuing our successes in the future as we deliver our remaining ARRA programs.

I would like to take this opportunity to thank you and the members of your audit team who helped develop the report. We have no further comments at this time.

If you have any questions, please contact Allen Fong at (408) 535-8146.

Sincerely,



Ed Shikada
Assistant City Manager