



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Sharon W. Erickson,
City Auditor

SUBJECT: *AMERICAN RECOVERY AND
REINVESTMENT ACT PRELIMINARY
REPORT ON INTERNAL CONTROLS*

DATE: June 18, 2009

RECOMMENDATION

We recommend that the City Council accept the City Auditor's report on the "*American Recovery and Reinvestment Act Preliminary Report on Internal Controls*".

SUMMARY

The City Auditor has assessed the City of San José's (City) readiness to receive American Recovery and Reinvestment Act (Recovery Act) funding. Given that some of the Recovery Act requirements do not necessitate immediate compliance, our preliminary assessment is that the City is making appropriate progress toward establishing the necessary additional internal controls.

We reviewed the Recovery Act's transparency and accountability requirements and general provisions, and the City's proposed internal controls to meet those requirements. Specifically, we checked to see whether internal controls were in place or whether they were still being developed. Exhibit 2 documents the status of these internal controls. The City Auditor will follow the City's progress in implementing the controls that are still being developed and, as programs are funded, will perform audits of the City's compliance with Recovery Act requirements.

BACKGROUND

President Obama signed the Recovery Act into law on February 17, 2009 to stimulate the economy and create jobs. The Recovery Act includes 23 title chapters covering appropriations, taxes, unemployment, health care, state fiscal relief, and other provisions. The \$787 billion stimulus package contains \$288 billion in tax credits, \$144 billion in state and local fiscal relief and \$355 billion of federal spending programs. The Recovery Act's stated purposes include the following:

1. To preserve and create jobs and promote economic recovery;
2. To assist those most impacted by the recession;
3. To provide investments needed to increase economic efficiency by spurring technological advances in science and health;
4. To invest in transportation, environmental protection and other infrastructure that will provide long-term economic benefits; and
5. To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

Funds made available to local governments are disbursed by federal agencies through formula, discretionary and competitive grants.¹ In many cases, funds are distributed through existing federal programs.

The Recovery Act provides for one-time funding. San José is eligible for funds that are allocated directly from federal agencies as well as funds allocated to the state and passed through to local government agencies. The Recovery Act funds projects in many program areas including energy, water, transportation, housing assistance, public safety and others. Because of the scope of the Recovery Act, many City departments have funding opportunities. As of June 15, 2009, the City anticipates receiving \$50 million in formula grant allocations and has applied for additional funds through other grant programs (see www.sanjoseca.gov/recoveryact for up-to-date information on Recovery Act funds allocated to the City).

SCOPE AND METHODOLOGY

This is the first in a series of reports the City Auditor will be issuing related to the Recovery Act. The objective of this report is to provide a preliminary review of the City's internal controls which address the accountability and transparency requirements and general provisions of the Recovery Act. The scope of this review is through June 15, 2009. We reviewed the following federal documents to determine the Recovery Act requirements:

- The American Recovery and Reinvestment Act of 2009;
- Office of Management and Budget Memorandum "*Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*," April 3, 2009;
- Office of Management and Budget Memorandum "*Payments to State Grantees for Administrative Costs of Recovery Act Activities*," May 11, 2009;
- Government Accountability Office "*GAO's Role in Helping to Ensure Accountability and Transparency: Testimony Before the U.S. Senate Committee on Homeland Security and Governmental Affairs (GAO-09-453T)*," March 5, 2009; and
- Presidential Documents memorandum "*Ensuring Responsible Spending of Recovery Act Funds*," March 20, 2009.

We also reviewed the following state and federal documents for further guidance. Specifically, we reviewed:

- Office of Management and Budget Circular A-87 "*Cost Principles for States, Local, and Indian Tribal Governments*," May 10, 1997;
- Office of Management and Budget Circular A-133 "*Audits of States, Local Governments, and Non-Profit Organizations*," June 24, 1997 (with June 27, 2003 revisions); and
- California State Auditor Testimony for Federal Stimulus Transparency, "*Hearing of the Accountability and Administrative Review Committee*," March 25, 2009.

¹ A formula grant has a specific allocation formula for aid to recipients. The specified formula includes quantifiable elements such as population, depending on the purpose of the aid. A discretionary grant allows federal agencies to select from all eligible recipients based on funding criteria.

To determine the City's internal controls relevant to the Recovery Act, we reviewed City memoranda, policies and procedures manuals, the Municipal Code, and the City's Recovery Act website. We also reviewed the City's 2004-05 through 2007-08 Single Audit reports. In addition, we met with City senior staff and staff from City departments involved with programs receiving Recovery Act funding.

We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

RECOVERY ACT ACCOUNTABILITY AND TRANSPARENCY

The Recovery Act includes specific rules to ensure that funds are used for appropriate purposes and are transparent to the public. The City must certify that infrastructure investments made with Recovery Act funds are an appropriate use of taxpayer dollars and post the certification on a website linked to the federal Recovery Act website (www.recovery.gov). In addition, ten days after the end of each quarter, the City must submit reports to federal agencies on the use of Recovery Act funds; the impact of the funding, including an estimated number of jobs created or retained by Recovery Act projects or activities; and details about Recovery Act grants and contracts awarded by the City to outside contractors, community-based organizations or other government agencies (i.e., subrecipients). The first report is due October 10, 2009.

The Recovery Act states that to the extent possible, contracts funded through the Act should be fixed-price contracts awarded through competitive procedures. The bill includes a preference for "quick start" activities for infrastructure investments; a prohibition on the use of funds for casinos, aquariums, zoos, golf courses or swimming pools; specific "Buy American" provisions; and prevailing wage requirements for Recovery Act funded projects. The Recovery Act also contains whistleblower protections for an employee of any non-federal employer receiving funds.

Individual programs funded through the Recovery Act may have more specific limitations on the uses of funds, including, but not limited to:

- Matching requirements;
- Additional reporting requirements;
- Maintenance of effort provisions and other requirements that Recovery Act funds do not supplant planned expenditures²; and
- Other program-specific rules³.

Furthermore, expenditures of Recovery Act funds are covered by federal and state statutes and regulations related to anti-discrimination and equal opportunity, the National Environmental Policy Act, and other statutes.

² To date, the maintenance of effort provisions related to transportation projects appear to apply only to states. Some Recovery Act transportation funding received by the state is passed through to local transportation agencies and jurisdictions, including the City.

³ In addition to spending programs, the Recovery Act includes other provisions, including a Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits subsidy for qualified employees who were laid off. The City will be reimbursed for the subsidy via a tax credit by the federal government on a bi-weekly basis. City staff have developed procedures to track premium contributions from laid off employees and requests for subsidy reimbursements for the City's contributions.

The Federal Office of Management and Budget's (OMB) April 3, 2009 memorandum, "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009" (OMB Guidance Memorandum) provided guidance for federal agencies to manage activities under the Recovery Act. The memorandum defined the Recovery Act's accountability objectives, which include the following:

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

Exhibit 1 shows the OMB's summary of the Recovery Act's accountability framework. The framework places the objectives under the phases of the Recovery Act funding lifecycle (pre-award, performance period, post-performance) and categorizes them into three areas: strategic (meeting high-level goals), operations (effectively and efficiently using resources) and reporting compliance (meeting applicable reporting requirements).

Exhibit 1: Recovery Act Accountability Framework and Objectives

	Pre-Award	Performance Period		Post-Performance Period
Strategic	Program Outcomes and Economic Outcomes Achieved			
	Competitive (and Fixed Price) Opportunities Maximized			
	Wasteful Spending, Fraud, and Abuse Identified and Minimized			
Operations	Funds Obligated Timely	Funds Expended Timely	Undelivered Orders Minimized	Sunset of Recovery Requirements
	Improper Payments Minimized			
	Timely and Accurate Data Reported to Recovery.gov			
Reporting Compliance	Agency and Program Plans Approved	Agency and Program Plan Milestones Completed by Estimated Dates		
	Spend-Plan Approved	Spend-Plan Milestones Completed by Estimated Dates		

Source: Federal OMB Guidance Memorandum dated April 3, 2009

The OMB Guidance Memorandum also outlined enhancements to standard processes for awarding and overseeing funds to meet accelerated time frames and other challenges posed by the Recovery Act's accountability and transparency requirements. These enhancements relate to federal agency rules regarding budgeting of funds, grants and cooperative agreements, contracts and loans and loan guarantees. Among these was guidance for federal agencies to consider weighting grant selection criteria to favor applicants with a demonstrated ability to deliver programmatic results and accountability objectives included in the Recovery Act. The OMB is expected to provide further guidance in late June 2009.

RECOVERY ACT OVERSIGHT

The Recovery Act calls for continuous oversight of distributed funds and designates specific responsibilities to the newly created Recovery Accountability and Transparency Board (Board), the U.S. Government Accountability Office (GAO), and the Inspectors General of federal agencies. The Recovery Act established the Board to conduct oversight to prevent fraud, waste and abuse and to coordinate this effort with the GAO and state auditors. Among the GAO's responsibilities is to report bimonthly regarding the use of Recovery Act funds by selected states and localities, including California. Inspectors General of federal agencies are required to review concerns raised by the public about specific Recovery Act investments; investigate matters regarding wasteful spending, poor contract or grant management or other abuses; and investigate alleged reprisals against whistleblowers employed by recipients of Recovery Act funds.

Given the heightened accountability and transparency requirements of the Recovery Act, the City Auditor plans to perform specific audits of Recovery Act projects and programs to determine whether the City's internal controls are functioning as they are intended. The audits will determine if the City is in compliance with the general Recovery Act requirements and specific federal agencies' program spending and reporting rules. Furthermore, the City Auditor intends to audit Recovery Act expenditures. Recovery Act funding will also be subject to the Single Audit rules at the end of each fiscal year. The City Auditor coordinates the Single Audits with the City's external auditors.

CITY OF SAN JOSÉ INTERNAL CONTROLS RELATED TO THE RECOVERY ACT

The City has policies and procedures in place to ensure the accountability of grants and contracts and adherence to local, state and federal laws and regulations. Furthermore, the City has a Whistleblower Hotline administered by the City Manager's Office.

On April 24, 2009, the City Manager issued a guidance memorandum, "*American Recovery and Reinvestment Act of 2009 – Guidance to Departments*", to senior staff regarding the identification, delivery and administration of initiatives using Recovery Act funds. The memorandum, coordinated with the City Auditor, highlighted additional internal controls that the City will implement to address the accountability and transparency requirements of the Recovery Act.

Compliance requirements, provisions and guidance for the Recovery Act along with the City's established or proposed internal controls to address them are listed in Exhibit 2 on the following pages. Specifically, Exhibit 2 shows the key accountability and transparency requirements and general provisions for recipients and OMB guidance for federal agencies that are relevant to the City's compliance with the Recovery Act. As OMB or federal agencies provide further guidance there may be additional requirements, or those listed in the exhibit may change. In future audits, the City Auditor plans to test general internal controls and the applicability to specific grants and agreements.

Exhibit 2: Key Recovery Act Transparency and Accountability Requirements and Related City of San José Internal Controls as of June 15, 2009

Compliance Requirement	City Internal Control	Status
A. Key Recovery Act Accountability and Transparency Requirements for Recipients		
1. Mayor/Chief Executive certification, accepting responsibility for the appropriateness of infrastructure investment projects, shall be posted on City's Recovery Act website.	All projects will be reviewed and vetted by the Program Lead (senior staff) to ensure appropriate use of taxpayer dollars. Program Leads will provide the City Manager documentation of their review in a Certification Template.	Established
	City Manager will be certifying official.	Established
	Certification posted on City's website.	Pending
2. City website linked to the federal Recovery.gov website.	City Manager's Office is responsible for keeping website up-to-date and in compliance with requirements.	Established
3. Reporting within 10 days of quarter end for recipients, including: <ul style="list-style-type: none"> • Amount of funds received and expended or obligated; • Descriptions of projects and evaluations of each project's completion status; • Estimate of number of jobs created or retained; • Information on subcontracts or subgrants; and • Additional detail for infrastructure investments. 	Capital Project Management System (CPMS), with some modifications, and in conjunction with the Financial Management System (FMS), will function as the City's reporting system.	In progress
	Project staff leads will ensure timely CPMS and FMS data input.	In progress
	Adapt current monitoring and oversight processes of subrecipient grants and contracts to include ability to gather information necessary for timely reporting.	TBD
	Awaiting further guidance from OMB on how to determine the number of jobs created or retained.	TBD
4. Central Contractor Registration (CCR) and Dun and Bradstreet Data Universal Numbering System (DUNS) number.	City is registered with CCR and has a DUNS number.	Established
5. Whistleblower protections for non-federal employees.	City's Whistleblower Hotline	Established
	City's Non-Retaliation Policy	Established
6. To the maximum extent possible, contracts shall be fixed-price through the use of competitive procedures. A summary of any contract awarded that is not fixed price and not awarded using competitive procedures shall be posted in a special section of the federal Recovery.gov website.	Competitive procedures for the procurement of goods and services are covered in the City's Municipal Code.	Established
	Competitive procedures for public works and improvement projects are covered in the City's Municipal Code and in the City's <i>Standard Specifications for Public Works Construction</i> .	Established
	Staff will develop internal controls to address the Recovery Act's preference for fixed-price contracts.	TBD
	Separate reporting requirements to be determined. Awaiting further guidance from OMB or federal agencies.	TBD
B. General Provisions of the Recovery Act for Recipients		
7. Preference for "quick-start" activities.	The San José Plan identified 31 projects that could be started within six months and were aligned with City priorities.	Established
	Senior staff in affected departments are aware of the preference for "quick-start" activities.	TBD
8. Funds available for obligation until September 30, 2010.	Staff leads designated to ensure on-time delivery of project.	Established

Exhibit 2: Key Recovery Act Transparency and Accountability Requirements and Related City of San José Internal Controls as of June 15, 2009 (continued)

Compliance Requirement	City Internal Control	Status
B. General Provisions of the Recovery Act for Recipients		
9. Funds may not be used for any casino or gambling establishment, aquarium, zoo, golf course or swimming pool.	City Manager approval required for all grant applications.	Established
	All projects will be reviewed and vetted by the Program Lead (senior staff) to ensure appropriate use of taxpayer dollars. Program Leads will provide the City Manager documentation of their review in a Certification Template.	Established
	City Manager certification	Established
10. "Buy American" provisions – All iron, steel, and manufactured goods used for a public building or public work must be produced in the United States, with limited exceptions which require a waiver from the federal agency providing the funding.	Staff is working to develop a method to document compliance with the "Buy American" provisions using the Certification Template. If the City cannot meet the requirements of the provision, the City can request a waiver from the funding federal agency.	TBD
11. Prevailing wage rate requirements.	City's Prevailing Wage Policy. [Prevailing wages under the Recovery Act are determined by the U.S. Department of Labor. The City's Prevailing Wage Policy uses rates determined by the State of California Department of Industrial Relations.]	Established
C. Relevant Accountability and Transparency Requirement of the Recovery Act for Federal Agencies		
12. All funds appropriated shall be established in separate funding (Treasury) accounts (i.e. as indicated in OMB guidance, there should be no comingling of Recovery Act and non-Recovery Act funds to ensure separate tracking and reporting on the uses of Recovery Act funds).	Finance Department will create separate accounting designations (called memo funds) to separately track Recovery Act appropriations and expenditures by program.	In progress
D. Relevant Governance and Risk Management Guidance from the Office of Management and Budget for Federal Agencies		
13. Establish a senior management council to oversee Recovery Act performance.	Senior staff weekly meetings to discuss Recovery Act issues. Also, Finance, Budget and City Manager staff meet periodically to discuss operational and implementation issues. ⁴	Established
	SharePoint Intranet site created to facilitate the sharing of information, resources and strategy coordination.	Established
14. Mitigate instances of fraud, waste and abuse.	City's Code of Ethics policy	Established
	Whistleblower Hotline	Established
	Whistleblower Hotline prominently displayed on City's Recovery Act website	Established
E. Relevant Budget Guidance from Office of Management and Budget for Federal Agencies		
15. Appropriate and allowable administrative cost allocations. In general, Recovery Act funds should not be used for telecommunications services or IT desktop support, or for incidental administrative costs (e.g. paper for copy machines).	The City prepares an annual Grant Cost Allocation Plan in accordance with federal cost allocation rules. Some federal agencies' funding notices for recipients have specific administrative cost percentage caps. This issue is still under discussion.	TBD

⁴ The City Auditor is represented at these meetings in an advisory capacity.

Exhibit 2: Key Recovery Act Transparency and Accountability Requirements and Related City of San José Internal Controls as of June 15, 2009 (continued)

Compliance Requirement	City Internal Control	Status
F. Relevant Grant Guidance from Office of Management and Budget for Federal Agencies		
16. Consider weighting selection criteria to favor grant applicants with demonstrated ability to deliver programmatic results and accountability objectives in the Recovery Act.	Assessment of prospective grantees is covered in the City's <i>Grants Management Policies and Procedures</i> . (Note: The procedures do not directly refer to the accountability objectives in the Recovery Act)	Established
17. Use internal control assessments to assess the risk of program waste, fraud and abuse in grants.	Single Audit [Note: The Single Audit requires that recipients maintain internal control over federally-funded programs that provide reasonable assurance that the recipient is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. Also, the GAO has recommended that OMB adjust the Single Audit process to provide for review of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010.]	Established
	City Auditor will assess specific risks associated with Recovery Act funding.	Established
G. Relevant Contract Guidance of Office of Management and Budget for Federal Agencies		
18. Give special attention to contractor responsibility determinations in awarding contracts. ⁵	The procurement of goods and services is covered in the City's Municipal Code and the City's <i>Request for Proposals (RFP) Manual</i> . ⁶	In progress
	Public works and improvement projects are covered in the City's Municipal Code and in the City's <i>Standard Specifications for Public Works Construction</i> . ⁶	In progress
19. Monitor contracts to ensure that performance, cost and schedule goals are met. Maintain strong internal controls over Recovery Act program funds.	City's <i>RFP Manual</i> (Non-Public Works projects)	Established
	City's <i>Standard Specifications for Public Works Construction</i> (Public Works projects)	Established
	Senior staff weekly meetings to discuss Recovery Act issues. Also, Finance, Budget and City Manger staff meet periodically to discuss operational and implementation issues. ⁷	Established

Sources: American Recovery and Reinvestment Act of 2009 and Federal OMB Guidance Memorandum dated April 3, 2009. Internal Control and Status columns prepared by City Auditor.

⁵ Per OMB, general standards for responsibility include that a prospective contractor have (1) adequate financial resources to perform the contract or the ability to obtain them; (2) the ability to comply with the required or proposed delivery or performance schedule; (3) a satisfactory record of past performance, integrity and business ethics, (4) the necessary organization, experience, accounting and operational controls, and technical skills or the ability to obtain them; and (5) the necessary production, construction and technical equipment and facilities or the ability to obtain them.

⁶ The City's Standards for Responsibility in the Municipal Code contain provisions stating that contractors, in their dealing with the City, act in good faith, do not mislead the City, and adhere to all applicable laws and City policies. The City is considering additional controls to address general standards for responsibility.

⁷ The City Auditor is represented at these meetings.

SINGLE AUDIT

Congress passed the Single Audit Act of 1984 to improve auditing and management of federal funds awarded to state and local governments. The Single Audit requires a single organization-wide financial and compliance audit for state and local governments. The Single Audit is intended to promote sound financial management, including effective internal controls, with respect to federal awards administered by state and local governments. In addition to internal controls, the Single Audit focuses on the recipient’s compliance with laws and regulations governing federal awards.⁸

The City is subject to the Single Audit because it expends more than \$500,000 of federal awards each year through programs administered by the Housing Department, Department of Transportation, the Airport and other departments. The specific programs audited each year as part of the Single Audit are determined using monetary thresholds and risk-based criteria provided by OMB. Because of an increase in federal awards from the Recovery Act, the number of programs subject to the Single Audit could increase. In addition, the GAO has recommended that OMB adjust the Single Audit process to put appropriate focus on Recovery Act programs to provide the necessary accountability over those funds.

Exhibit 3 lists the relevant findings identified by the City’s external auditors in their 2004-05 through 2007-08 Single Audit reports. Each of the findings noted were resolved, however findings corrected in one program later appeared in other programs.

Exhibit 3: Summary of Relevant Single Audit Findings

Year	Finding
2004-05	One program’s subrecipient files did not contain support indicating that certification was received or verified on the subrecipients’ procurement, suspension and debarment status. <i>(Resolved)</i>
2005-06	Drafts of financial statements contained errors resulting in more review time necessary for external auditors. This was primarily due to a lack of City resources, particularly those devoted to financial reporting. The external auditors recommended the Finance Department’s senior staff play a more active role in monitoring and reviewing the reporting process to ensure timely and accurate financial data. <i>(Resolved)</i>
	The City did not report all relevant federal expenditures in its draft Schedule of Expenditures of Federal Awards. Staff was unaware that three programs were subject to the Single Audit rules. <i>(Resolved)</i>
	The City did not monitor grant recipients (in one program) to ensure subrecipients did not have findings from their own Single Audit nor questioned program costs requiring the City’s resolution. <i>(Resolved)</i>
2006-07	The City’s financial statement reporting process relied on internally-developed, complicated Excel spreadsheets. The spreadsheets contained a multitude of data, with formulas linked to data distributed in various parts of the worksheet entered by different preparers. As a result, one small error (i.e. a transposed digit or an incorrect formula) could lead to miscalculations throughout entire spreadsheet. <i>(Resolved)</i>
	There were misstatements in the City’s draft Schedule of Expenditures of Federal Awards for three programs. <i>(Resolved)</i>
	Two City departments did not perform monitoring procedures over its subrecipients as required by federal grant requirements. <i>(Resolved)</i>
	In one program, the City did not verify whether a potential contractor was not suspended or debarred or otherwise excluded when a contract was made. <i>(Resolved)</i>
2007-08	None

Source: City Auditor-prepared based on City of San José Single Audit Reports, prepared by Macias, Gini & O’Connell, LLP.

⁸ California State Auditor Testimony for Federal Stimulus Transparency “Hearing of the Accountability and Administrative Review Committee,” March 25, 2009 and OMB Circular A-133.

OTHER ISSUES

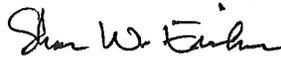
The City Auditor has identified the following issues that impact the City budget or could affect the City's readiness for Recovery Act funding. The City Auditor will monitor these issues in an advisory capacity and review them during future audits, if applicable.

1. Recovery Act funds available to the City are primarily on a reimbursement basis. Therefore, a potentially significant amount of dollars will need to be paid up front by the City to be reimbursed later, creating negative cash balances for Recovery Act programs. These negative cash balances will increase interest costs to the City budget. Other jurisdictions plan to closely monitor timeliness of reimbursement requests to minimize interest costs. Based on information from the OMB, it does not appear that the City can charge interest to Recovery Act fund programs.
2. Past City Auditor audits show that City grant and contract monitoring is inconsistent from department to department. This is an issue the City Auditor will take up in future audits.
3. The City plans to post Recovery Act reporting online within ten days of the end of each calendar quarter. This is a short time frame; however, the City anticipates that its proposed reporting system will allow them to meet this deadline.
4. Allowable administrative cost caps may be lower than the City's indirect cost rate, or may not be available if the state or another agency has already captured these funds. To date, OMB has provided guidance to states to allocate administrative and indirect costs. The City plans to implement the relevant portions of that guidance. On May 27, 2009, the City Manager's Office issued Manager's Budget Addendum #40 with recommendations related to the Recovery Act, including an appropriation for \$500,000 to support administrative costs. Federal legislation, which has been passed in the U.S. House and is now in the Senate, would provide funding for oversight to prevent and detect waste, fraud and abuse.
5. Some federal agencies that will disburse Recovery Act funding through existing federal programs issued notices for funding and guidance for recipients within a few months of the Recovery Act's passage. However, in other cases, guidance and methodologies are still being developed, which presents a challenge to the City as it develops its internal controls. Furthermore, programs that have more specific restrictions on uses of funds or other requirements present additional challenges to the City as it attempts to be consistent in developing those controls.
6. Some grant applications have been or will be prepared in conjunction with other jurisdictions or governmental entities. In these instances, there is a question of which agency has the responsibility for Recovery Act compliance. Further, where another agency is the lead agency, the lead agency may require the quarterly reporting information from the City in less than ten days in order for it to meet the ten day deadline.

CONCLUSION

We have reviewed the Recovery Act's transparency and accountability requirements and general provisions. Based on our preliminary assessment, the City is making appropriate progress to establish the appropriate internal controls. Future audits will update our review of the City's progress toward establishing internal controls and will verify compliance with Recovery Act requirements and provisions. We also intend to audit Recovery Act expenditures.

We reviewed this report with the City Manager's Office and the pertinent City departments. The City Auditor's Office thanks the management and staff from the City Manager's Office, the Finance Department, the City Manager's Budget Office and departments with Recovery Act programs for their time, information, insight and cooperation during the preparation of this report. The City Auditor's staff who participated in the preparation of this report are Steven Hendrickson, Ruth Merino and Joe Rois.



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