

May 2010

# RECOVERY ACT

## States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Appendixes)



GAO

Accountability \* Integrity \* Reliability

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# Appendix I: Arizona

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## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in Arizona. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

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## What We Did

We reviewed four specific program areas—education, justice, clean water and drinking water, and public housing—funded under the Recovery Act. We selected these program areas primarily because they have received and are in the process of obligating Recovery Act funds. Our work focused on the status of the program area's funding, how funds are being used, methods used by the programs to monitor projects to ensure proper use and safeguarding of Recovery Act funds, and issues that are specific to each program area. (For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).) For education programs, we spoke with Arizona Department of Education officials and visited a local educational agency (LEA). For the criminal justice programs, we spoke with the Arizona Criminal Justice Commission and visited two localities receiving criminal justice funds. For Clean Water and Drinking Water State Revolving Funds, we spoke with the Water Infrastructure Finance Authority of Arizona and visited five clean water and drinking water projects. As part of our review of public housing, we met with five public housing agencies. Our work in Arizona also included monitoring the state's fiscal situation and visiting the cities of Mesa and Flagstaff to review their use of Recovery Act funds. We chose to visit Mesa and Flagstaff because they represent different sized cities that are both facing budget shortfalls due to declines in state funding for programs, tax revenues, and fees.

To gain an understanding of the state's experience in meeting Recovery Act reporting requirements,<sup>2</sup> we examined documents prepared by and held discussions with the Governor's Office of Economic Recovery (OER), the Maricopa County Housing Authority, and the Mesa Unified School District 4. Further, we spoke with 19 state and local agencies in the

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

<sup>2</sup>Recipients of Recovery Act funds are required to report quarterly on a number of measures, including the use of funds and estimates of number of jobs created and retained. Recovery Act, div. A, § 1512. We refer to the reports required by section 1512 of the Recovery Act as recipient reports.

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accountability community that have oversight responsibilities for Recovery Act funds.

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## What We Found

- **Education.** The U.S. Department of Education has made approximately \$1.2 billion in Recovery Act funds available to Arizona for the State Fiscal Stabilization Fund (SFSF); grants under the Individuals with Disabilities Education Act (IDEA), as amended, Part B; and grants under Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended. A large percentage of these funds are being used to pay employee salaries. Existing monitoring programs for non-Recovery Act funds have identified problems with LEAs' use of funds; these illustrate the importance of closely monitoring Recovery Act funds, but the responsible monitoring groups face staffing issues that affect the amount of coverage they can provide.
- **Department of Justice grants.** The U.S. Department of Justice's Bureau of Justice Assistance has awarded about \$25 million directly to Arizona in Recovery Act Edward Byrne Memorial Justice Assistance Grant program funding. The Arizona Criminal Justice Commission, which administers the grants, said they passed through about \$18.7 million to localities to support the state's drug task forces and tandem prosecution projects, about \$4.2 million for statewide criminal justice projects, and retained about \$2 million for administrative purposes. In addition, 13 local governments received a total of about \$12.6 million in Recovery Act Community Oriented Police Services Hiring Grants and will use the funding to pay salaries and benefits for 56 police officers for fiscal years 2009-2011.
- **Clean Water and Drinking Water State Revolving Funds.** Arizona received a total of approximately \$82 million in Recovery Act funding for its clean water and drinking water projects, which the Water Infrastructure Finance Authority of Arizona (WIFA) used to help finance 46 projects. WIFA has had difficulties monitoring its Recovery Act funded-projects, but WIFA is taking steps to strengthen its monitoring.
- **Public Housing Capital Fund.** Arizona has 15 public housing agencies that received a total of \$12.1 million in Recovery Act funds. All 15 housing agencies obligated 100 percent of their funds by the March 17, 2010, deadline. However, the Department of Housing and Urban Development (HUD) field office had to work extensively with the state's two troubled housing agencies to obligate their funds in

time. According to HUD field office officials, they are anticipating new monitoring requirements; however they do not know the potential impact of this new monitoring on their capacity to carry out those requirements.

- **Arizona’s fiscal condition.** Despite receiving about \$1.3 billion in Recovery Act funds in fiscal year 2010, Arizona faced a \$2 billion shortfall, which was resolved with spending reductions and by acquiring additional debt. Facing continuing economic problems, Arizona’s fiscal year 2011 budget was balanced with reductions in education, health, and other programs and a voter-approved 1-cent temporary increase in the state’s sales tax. Economic forecasters estimate Arizona’s revenue will not recover to the 2007 level until 2015.
- **Cities’ use of Recovery Act funds.** Of the \$57.5 million in Recovery Act funds awarded to Mesa, federal agencies provided approximately \$16.5 million directly, while the remainder was awarded to state agencies that in turn passed the funds to the city. Flagstaff received approximately \$2.6 million directly from federal agencies and the remainder of the total \$4 million through state agencies. Officials in both Mesa and Flagstaff said that Recovery Act funds have helped to deliver services they otherwise would have been unable to fund, as well as employing local workers. Additionally, the funds are expected to provide long-term benefits to the cities.
- **Accountability.** State agencies recognize the importance of monitoring Recovery Act funds to protect against fraud, waste, and abuse, but current practices vary significantly, sometimes due to staffing shortages. Comprehensive audit activities just began in 2010 because most entities had expended only a fraction of the Recovery Act funds in 2009. The Single Audit is a significant tool used to oversee expenditures of Recovery Act funds. The results of the Arizona Auditor General’s fiscal year 2010 Single Audit, scheduled to be released in 2011, will be a more comprehensive first look at Recovery Act funding. Some local governments are also conducting their own audits specific to Recovery Act funds.

**Educational Institutions Are Using Recovery Act Funds Primarily to Pay Teachers and Other Staff; Resource Constraints Pose Challenges for Monitoring To Ensure Proper Use and Safeguarding of Funds**

The U.S. Department of Education has made approximately \$1.2 billion in Recovery Act funds available to Arizona for SFSF education stabilization funds, IDEA, Part B and ESEA Title I, Part A grants. Table 1 shows the amounts that have been made available to, and drawn down by Arizona, for these three grants.

**Table 1: Funds Made Available to Arizona for SFSF education stabilization funds; IDEA, Part B; and ESEA Title I, Part A Grants**

	Made available to Arizona	Drawn down by Arizona	Percent drawn down of amount made available
SFSF education stabilization	\$831,869,331	\$505,603,597	61%
IDEA, Part B	184,178,924	57,061,531	31
ESEA Title I	195,087,321	64,736,366	33
<b>Total</b>	<b>\$1,211,135,576</b>	<b>\$627,401,495</b>	<b>52%</b>

Source: U.S. Department of Education, as April 16, 2010.

SFSF funds were provided to the Governor’s office, while both the ESEA Title I, Part A and IDEA, Part B grants were provided to the Arizona Department of Education (department), which is the state education agency. The Governor’s office has drawn down nearly \$506 million of the \$832 million in SFSF education stabilization funds for LEAs and institutions of higher education. The department has drawn down 33 percent and 31 percent of its ESEA Title I, Part A and IDEA, Part B funds, respectively. The lower draw down rates for these latter two programs to date are due, in part, to the LEAs having begun expending funds over time, rather than in a lump sum, as was the case for SFSF funds. States have until September 2011 to obligate ESEA Title I, Part A and IDEA, Part B funds.<sup>3</sup>

LEAs are using the largest percentage of funds they receive<sup>4</sup> for teacher and other staff salaries; and, lesser amounts for professional services—such as professional development and hiring occupational and speech

<sup>3</sup>States must obligate at least 85 percent of their ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and all of their funds by September 30, 2011.

<sup>4</sup>LEAs and institutions of higher education must submit applications for their allocations of the grants, detailing how the funds will be used. The applications are reviewed by the department for IDEA, Part B and ESEA Title I, Part A and by OER for SFSF to determine if the intended uses are allowable and consistent with authorized purposes.

therapists—and purchasing supplies and other services, such as instructional software and other school materials and supplies.

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**Arizona Plans to Meet SFSF Maintenance of Effort Requirements with New Revenue from a Voter-Approved State Sales Tax Increase**

In order to meet maintenance-of-effort (MOE) requirements under SFSF, a state must maintain state support for kindergarten through 12th grade education and institutions of higher education at least at fiscal year 2006 levels in fiscal years 2009, 2010, and 2011.<sup>5</sup> For fiscal years 2009 and 2010, Arizona’s budget provided funding for kindergarten through 12th grade and higher education at least at 2006 levels—\$3.46 billion and \$987 million, respectively—as required to meet MOE requirements for SFSF under the Recovery Act. Facing an estimated \$2.58 billion shortfall in the state budget for fiscal year 2011, Arizona plans to maintain education funding at the 2006 level to meet MOE requirements through new revenue from a voter-approved 1-cent increase in state sales tax. The added tax is estimated to generate total revenue of about \$918 million in fiscal year 2011.

**Agency Past Monitoring Efforts Demonstrate the Importance of Oversight, but There Are Challenges to Increasing Coverage**

The Arizona Department of Education is responsible for monitoring the use of federal funds it receives from the IDEA, Part B and ESEA Title I, Part A grants, including Recovery Act and non-Recovery Act funds. The department has assigned monitoring responsibility to the Exceptional Student Services (ESS) Unit for IDEA, Part B program funds and to the Title I Office for ESEA, which includes ESEA Title I, Part A funds. The ESS Unit provides funding to support the Arizona Department of Education’s Audit Unit to perform fiscal monitoring of IDEA, Part B funds. The Audit Unit has not begun monitoring Recovery Act funds because selections for fiscal year 2010 were made using end of year completion reports for fiscal year 2008 and, at that time, LEAs had not received any Recovery Act funds. It plans to begin monitoring these funds July 1, 2010, and will incorporate added requirements of the Recovery Act into its monitoring guidelines,

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<sup>5</sup>The Recovery Act authorizes the Secretary of Education to waive MOE requirements if a state demonstrates that it has funded education at the same or greater percentage of total state revenues than it did in the preceding year. Recovery Act, div. A, § 14012(c), 123 Stat. 286.

such as prevailing wage rates and Buy American provisions.<sup>6</sup> The Title I Office officials said that they had not performed on-site monitoring and have not yet modified their monitoring protocols to reflect Recovery Act requirements. Officials plan to modify the protocols before the beginning of the next school year and will begin monitoring Recovery Act funds when the school year begins.

The Audit Unit and the Title I Office’s monitoring programs in prior years have disclosed important internal control weaknesses at some LEAs over IDEA, Part B and ESEA Title I, Part A funds. These findings illustrate the importance of closely monitoring Recovery Act funds. The monitoring conducted by these offices to date on LEAs’ use of non-Recovery Act funds has identified several areas in which some LEAs did not meet requirements, such as inadequate inventory controls over fixed assets or improper uses of funds. Table 2 shows the number of LEAs that did not meet requirements in one or more of the areas reviewed.

**Table 2: Number of LEAs Visited by the Audit Unit for Monitoring IDEA Funds and Title I Office Staff for Monitoring ESEA Title I Funds, and Compliance Results**

	Number visited	Met requirements	Did not meet requirements	Percentage meeting requirements	Percentage not meeting requirements <sup>a</sup>
Audit Unit <sup>b</sup>	32	11	21	34%	66%
Title I Office <sup>c</sup>	72	33	39	46	54
<b>Total</b>	<b>104</b>	<b>44</b>	<b>60</b>	<b>42%</b>	<b>58%</b>

Source: GAO Summary of Arizona Department of Education records.

<sup>a</sup>Actions have been taken or are underway to address these deficiencies.

<sup>b</sup>Data for the Audit Unit are cumulative since it began performing monitoring for the ESS Unit and includes results of findings at six LEAs whose reports have not been issued as of March 25, 2010.

<sup>c</sup>Data for Title I Office staff are for fiscal years 2009 and 2010 and for what had been entered into its monitoring system as of April 8, 2010.

Many of the findings of the Audit Unit and Title I Office identify the need for LEAs to strengthen their internal controls over fund use. For example, Audit Unit monitors found that one LEA had incurred about \$39,000 of

<sup>6</sup>The Recovery Act requires that laborers and mechanics employed by contractors and subcontractors on projects funded by Recovery Act funds be paid specified prevailing wages. Recovery Act, div. A, § 1606. In addition, none of the Recovery Act funds may be used for construction, alteration, maintenance, or repair of public buildings or work unless certain materials used are produced in the United States, with certain exceptions. Recovery Act, div. A, § 1605.

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disallowed expenses because the LEA was unable to produce the required supporting documentation for payroll and procurement of supplies. The LEA is reimbursing the Arizona Department of Education for these expenses.

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### Monitoring of Funds for All Three Grants Faces Coverage Challenges Because of Limited Staff

Both the Audit Unit and Title I Office expressed concerns over their ability to provide adequate monitoring given current staffing levels. The Audit Unit's monitoring program is designed to primarily cover several LEAs that receive the largest amount of grant funds each year to ensure a large percentage of the grant award is reviewed over a 5-year period. In addition, it selects a smaller grouping of LEAs to monitor from among (1) rural districts and nearby charter schools, (2) smaller urban districts and large urban charters, and (3) potentially troubled districts and charters identified in audit reports. The Audit Unit has two auditors to perform on-site fiscal monitoring, and they are reviewing 24 that expended about \$44 million of the nearly \$153 million expended by all 445 LEAs in IDEA, Part B funding for fiscal year 2008. The Title I Office's monitoring program is designed to perform on-site monitoring of a group of LEAs each year and to ensure that all LEAs will have had an on-site visit at the completion of 6 years. A total of 401 LEAs expended about \$259 million in fiscal year 2009 ESEA Title I, Part A funding. Officials for this program informed us that the office has 10 staff who are monitoring 62 of these LEAs, which account for about \$35 million of these total funds.<sup>7</sup> Title I Office officials said the office could use 20 staff for monitoring, but has not been able to fill several vacancies or hire additional staff due to budgetary constraints.

OER is responsible for monitoring the use of SFSF funds, and OER officials informed us that they plan to use the office's existing staff of ten to perform monitoring responsibilities along with their other responsibilities of coordinating and assessing accountability over Recovery Act funds at state agencies. Officials stated that OER will implement a risk-based monitoring plan for selecting recipients to monitor. This plan, which is currently under review by the U.S.

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<sup>7</sup>According to Title I Office staff, the timing of the on-site visit affects which expenditure records they will review. For example, if the visit was early in the school year, the records reviewed will be from prior year reports whereas if the visit was toward the end of the school year, they would review current expenditure records. In our example, we assumed that the records reviewed during fiscal year 2010 visits cover fiscal year 2009 expenditures.

Department of Education,<sup>8</sup> places SFSF fund recipients in the categories of high, moderate, and low risk based on factors such as expenditure amounts and prior audit results. Until this risk-based system is developed, OER will monitor recipients that receive \$500,000 or more of SFSF funds and those that receive federal funding for the first time. OER has determined that 125 recipients comprising 110 LEAs, 11 community colleges, 3 universities, and 1 Teach for America<sup>9</sup> contract meet the \$500,000 threshold for fiscal years 2009 and 2010. As of April 2010, OER was awaiting the Arizona Department of Education's information on the LEAs that are first-time recipients. From the list of 125 recipients and the list of first-time recipients, OER will select 36 for on-site visits to be completed by December 2010. OER officials said that the office was in the process of hiring additional staff and until these staff are hired, it will perform 4 on-site visits per month beginning in April 2010 to complete the 36 recipient on-site visits. The number of recipients it will monitor, however, could change once the risk-based plan mentioned above is developed.

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<sup>8</sup>As requested, Arizona provided the U.S. Department of Education with a draft monitoring plan on March 12, 2010, for review.

<sup>9</sup>Teach for America is an organization whose mission is to eliminate educational inequities by recruiting recent college graduates to teach for 2 years in urban and rural public schools in low-income communities. OER is funding this effort using SFSF government services funds.

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## Recovery Act Department of Justice Grants in Arizona Are Supporting Drug Task Forces and Increased Police Forces and Are to Be Subject to Long- Standing Monitoring Processes

Recovery Act Edward Byrne Memorial Justice Assistance grants (JAG) awarded to the Arizona Criminal Justice Commission (ACJC)—the state agency that coordinates, monitors, and reports on Arizona’s criminal justice programs—totaled about \$25 million. These funds were intended to help ACJC with its work supporting 16 multi-jurisdictional<sup>10</sup> drug task forces and prosecution projects. To reduce budget deficits in the state, the Arizona Legislature has cut about \$24.6 million in state funds planned to support the ACJC’s mission, including the 16 drug task forces and prosecution projects from fiscal years 2008 through 2011. Because of the Recovery Act JAG monies, ACJC was able to pass funds to localities to support the drug task forces and prosecution projects at a level similar to what it had been before the legislature reduced ACJC’s budget. According to ACJC officials, had they not received Recovery Act funds, they would have had to severely reduce or discontinue at least half of the projects funded with JAG monies. ACJC has financial and performance monitoring mechanisms in place for pass-through recipients of JAG monies, and has continued using those existing mechanisms to monitor Recovery Act JAG funds. In addition to JAG funds, another Recovery Act Department of Justice grant for Community Oriented Police Services (COPS) awarded 13 localities in Arizona a total of about \$12.6 million in funding for hiring or retaining police officers.

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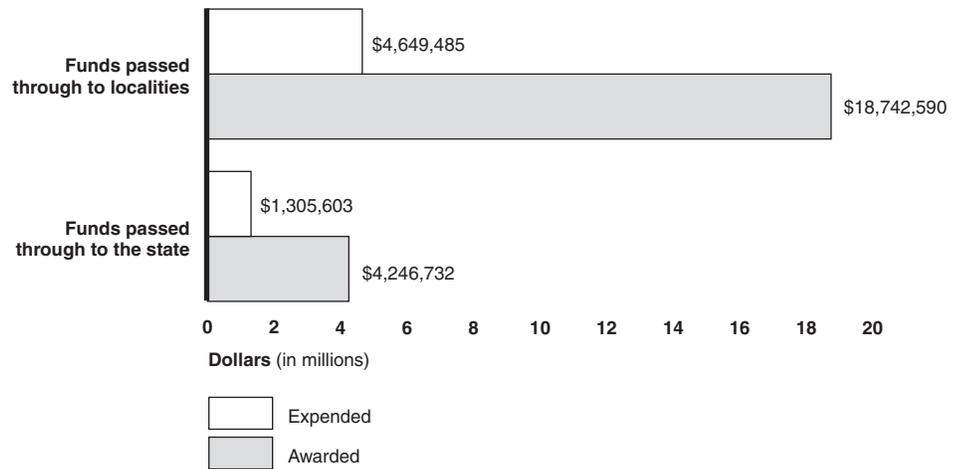
## Localities Are Using Recovery Act JAG Funds to Support Public Safety Projects

Of the approximately \$25 million in federal funds allocated to ACJC, officials told us ACJC has passed through about \$18.7 million to localities to support the existing task forces and tandem prosecution projects which are continuing their work at the pre-Recovery Act levels and about \$4.2 million to the state Attorney General’s Office and the Arizona Department of Public Safety for statewide criminal justice projects such as prosecution and forensics. These drug task forces that received the Recovery Act JAG funds accounted for seizures of 847,665 grams of cocaine; 49,586 grams of heroin; 206,713 grams of methamphetamine; and 305,082 pounds of marijuana in 2008. As of February 1, 2010, local pass-through recipients of Recovery Act JAG funds have expended about 23.5 percent of the \$18.7 million they received from ACJC and state agencies have expended about 31 percent of the \$4.2 million they received from ACJC, as illustrated in Figure 1.

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<sup>10</sup>These multi-jurisdictional task forces attempt to leverage state and federal funds to increase the effectiveness of collaborative enforcement efforts that address drug, gang, and violent crime problems throughout Arizona.

**Figure 1: Recovery Act JAG Pass-Through Funds in Arizona**



Source: GAO analysis of ACJC data.

ACJC retained about \$2 million for administrative uses over the 3-year grant period between fiscal years 2009 and 2011, which it uses to monitor the expenditures of Recovery Act funds, track performance, and offer guidance to recipients of the pass-through funds.

**ACJC Plans to Continue to Use Its Longstanding Practices, with Some Modifications to Simplify Reporting, to Monitor JAG Funds**

ACJC uses a variety of approaches to track the funds it provides to localities, both for the JAG funds it receives and for the more recent Recovery Act JAG funds. These approaches include the use of the Bureau of Justice Assistance required performance measurement tool to monitor performance metrics and long-term benefits achieved, as well as on-site visits and communication with pass-through recipients. To collect information for the performance measurement tool, ACJC sends an online survey to all pass-through recipients. The financial and performance measures monitored in the online survey are tailored to each recipient, but all recipients are required to include Recovery Act recipient reporting metrics such as jobs created and retained. The survey also includes other performance measures, such as the percentage of the project completed, as well as descriptions of the project’s activities.

In addition, ACJC officials are developing a system to integrate the performance data with financial and programmatic information to ease recipients’ Recovery Act reporting obligations and simplify recipient reporting for ACJC. According to ACJC officials, in large part because of ACJC’s efforts to align Recovery Act reporting requirements with state

reporting requirements, they have not experienced any recipient reporting problems. ACJC staff also plan on visiting each pass-through recipient at least one time over the course of the 3-year JAG grant to ensure that the program funds are being expended in accordance with the grant guidelines.

Recovery Act JAG pass-through funds are generally a continuation of the existing JAG program, and the funds are going to the same recipients for the same purposes as in the past. ACJC, therefore, considers the pass-through funds to be a low risk for fraud, waste, and abuse problems because past monitoring efforts have indicated to ACJC which pass-through recipients have been problematic, and those recipients with a history of conscientious program management have been the recipients of ACJC Recovery Act funds.

According to ACJC officials, they are beginning to plan for the end of Recovery Act funding, beginning in 2012. ACJC has begun notifying all pass-through recipients that they will need to begin to contribute to the task force funding starting in fiscal year 2012.

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### Arizona Has Expanded Community-Based Policing as a Result of Additional Police Staff Hired with Recovery Act COPS Funds and Expects Tracking of Those Funds Will Not be Problematic, Although Paying for Officers Beyond 2012 May Present a Challenge

Across Arizona, 13 local governments—including Mesa and Flagstaff—received a total of about \$12.6 million in COPS Hiring Recovery Program (CHRP) funding from the U.S. Department of Justice and plan to use it to directly pay for the salaries and benefits for 56 police officers for fiscal years 2009 through 2011. Those 13 local governments, as part of their CHRP applications, are required to use their own funding to pay for each newly-hired or retained officer for 1 additional year, through fiscal year 2012. We spoke with officials in Mesa and Flagstaff about their ability to pay these costs and neither foresaw having trouble paying for the fourth year. However, both cities' officials said they are counting on an economic recovery to build the general funds and pay for the salaries and benefits for the officers hired with CHRP funds beyond 2012.

The city of Mesa—the only one of the 13 recipients with a population greater than 150,000—applied for and received funding for the hiring of 25 of the 56 total officers, or about 45 percent. These 25 officers represent about a 3 percent addition to the total police force in Mesa, which is about 800 officers. However, subsequent to their application approval, the Mesa police department was asked to present a plan to reduce its budget by 5 to 10 percent. Because of this, Mesa is researching the possibility of requesting a grant modification so that it can use the funds to retain 25 officers rather than hire 25 new ones.

Flagstaff applied for and received CHRP funding for six police officers. As of February 1, 2010, three officers had begun duty on the Flagstaff police force and three were at the police academy. According to Flagstaff city officials, the CHRP funds saved the Drug Abuse Resistance Education program<sup>11</sup> in Flagstaff, which the city would have otherwise eliminated, and allowed the city to use one of the officers to continue expanding its real-time crime analysis program.

In terms of tracking the Recovery Act COPS funds, officials in both Mesa and Flagstaff reported that they assign the Recovery Act funds separate accounting codes to facilitate tracking of expenditures and have not experienced any problems with recipient reporting.

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## Arizona Met the Recovery Act Deadline to Have Its Water Funds Under Contract and Is Strengthening Its Monitoring to Safeguard Recovery Act Funds

The Recovery Act required the U.S. Environmental Protection Agency (EPA) to allocate \$4 billion to states to help communities with water quality and wastewater infrastructure needs and \$2 billion for drinking water infrastructure needs, with part of the funding targeted toward green projects.<sup>12</sup> EPA provided these funds to the Clean Water and Drinking Water State Revolving Funds (SRF) in each state and Puerto Rico and as direct grants to the District of Columbia and other U.S. territories.

WIFA, an independent Arizona state agency, is authorized to finance eligible high-priority water infrastructure projects through the state's Clean Water and Drinking Water SRFs. WIFA loans SRF funds to communities and recycles the loan repayments back into the revolving funds to finance future water projects. Generally, WIFA offers borrowers below-market interest rates on loans for eligible project costs. The Recovery Act required WIFA to provide additional subsidization on its Recovery Act-funded SRF loans, which WIFA gave to its borrowers in the form of principal forgiveness.<sup>13</sup> WIFA reimburses borrowers, or

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<sup>11</sup>The Drug Abuse Resistance Education program is a program whose mission is to provide children with the skills they need to live drug and violence-free lives. To do this, the program establishes relationships between students and law enforcement.

<sup>12</sup>The Recovery Act requires that at least 20 percent of funds provided to each state's State Revolving Funds be used to fund projects that include green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. Recovery Act, 123 Stat. 169.

<sup>13</sup>The Recovery Act requires states to use at least 50 percent of their Recovery Act funds to provide additional subsidization in the form of principal forgiveness, negative interest loans, or grants. Recovery Act, 123 Stat. 169.

subrecipients, for eligible costs of work completed on projects as the subrecipients request draws from the agency's two SRFs.

Arizona had all of its Recovery Act funds awarded to projects that were under contract by the February 17, 2010, deadline. Additionally, WIFA established its own state-specific requirement that all projects begin construction by that date. The state received approximately \$82 million in Recovery Act funding for its two SRFs and used approximately \$76 million to help finance 46 projects.<sup>14</sup> The Drinking Water SRF used \$50.6 million to help finance 29 projects, and the Clean Water SRF used \$25.4 million to help finance 17 projects. Additionally, Arizona exceeded the Recovery Act's green reserve requirement, providing \$12.7 million (23 percent) of the Drinking Water funding for improvements such as replacing leaking pipelines (see Figure 2) and approximately \$12.4 million (47 percent) of the Clean Water funding for improvements such as reclaiming treated water for use in irrigation. None of the 46 projects, with expected costs totaling approximately \$182 million, were funded completely with Recovery Act funds. Other funding sources included WIFA's SRF base program (i.e. non-Recovery Act) funds and subrecipients' own funds. As of May 1, 2010, subrecipients had drawn down almost \$47.7 million, or 63 percent of the Recovery Act funding.

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<sup>14</sup>Arizona was allocated a total of \$55.3 million for its Drinking Water SRF and \$26.7 million for its Clean Water SRF, which included approximately \$267,000 in funding for water quality management planning. States may set aside a portion of their SRF funds for administrative expenses, technical assistance, and other limited purposes.

**Figure 2: Existing Pipeline to be Repaired as Part of the Town of Payson’s Recovery Act-Funded Drinking Water Project**



Source: Salt River Project photo provided by Town of Payson.

Note: The Town of Payson is partnering with the Salt River Project to repair and extend this pipeline to provide the town a renewable surface water supply. The Salt River Project is one of Arizona’s largest water suppliers and provides power to customers throughout central Arizona.

To review the progress of projects supported with Recovery Act funds, we chose the following five projects to visit, based on geographic diversity, type and amount of financing, and green component (see table 3). Because Arizona received more than twice as much money for its Drinking Water SRF, we emphasized Drinking Water projects over Clean Water projects.

**Table 3: Clean Water and Drinking Water Site Visit Locations**

Location	SRF	Project description	Amount funded (Recovery Act)	Amount funded (base SRF funds)	Total amount funded by WIFA	Project status
Buckeye	Clean water	Wastewater treatment plant upgrades and expansion. <sup>a</sup>	\$6,372,285	\$5,627,715	\$12,000,000	Construction started
Eloy	Drinking water	Water distribution improvements, including new water meters with remote monitoring and new water main with storage tank and booster station. <sup>a</sup>	2,800,000	1,200,000	4,000,000	Completed
Flagstaff	Drinking water	Connect new well and expand well building. <sup>a</sup>	542,500	232,500	775,000	Completed
Mesa	Drinking water	Replace aging water lines in downtown Mesa.	1,144,000	286,000	1,430,000	Completed
Payson	Drinking water	Surface water project-pipeline repair and extension. <sup>a</sup>	4,000,000	6,585,000	10,585,000	Construction started

Source: GAO summary of WIFA data.

<sup>a</sup>Projects contained a green component. In the cases of Buckeye and Payson, 100 percent of their Recovery Act funding was identified as green infrastructure.

**In Light of the Recovery Act and other Requirements, WIFA Recognized the Need to Take Steps to Strengthen Its Monitoring**

According to WIFA officials, they used two methods to monitor project compliance with Recovery Act requirements. First, they followed existing agency policies that require WIFA staff to conduct an on-site project observation when more than 50 percent of its WIFA funding is drawn and again when more than 85 to 95 percent is drawn. These on-site visits are intended to enable WIFA to make certain that subrecipients adhere to the approved schedule, plans, specifications, and financial assistance agreement for the loan, as well as that construction is of sufficient quality to ensure a useful life greater than the loan repayment period. According to WIFA’s policies, however, the subrecipients are still responsible for providing adequate on-site inspection and engineering review to determine acceptability of the work and contract compliance.

Under the second method, WIFA officials rely on subrecipients to self-certify that contractors adhere to Recovery Act requirements, including the Recovery Act’s Davis-Bacon wage rates and Buy American provisions. According to WIFA officials, subrecipients are required to certify in their project applications and loan documents that they understand their responsibilities for complying with Recovery Act requirements. Further, the officials said they also informed subrecipients that they must maintain

all documentation used to meet these requirements at the project site for potential EPA audits or other inspections. WIFA provided subrecipients written guidance on the Davis-Bacon wage rates and Buy American provisions for subrecipients and contractors, and EPA trained them through in-state seminars and Webcasts.

We found a shortcoming in these methods, however. For example, the on-site project observations, which are triggered by a project's schedule for drawing down funds, were not always completed when expected because projects did not draw funds at the same rate construction was completed. We found projects at Mesa and Eloy, which were completed or nearly completed, and yet had not been inspected because they had not drawn 50 percent of their loan from WIFA. When we discussed this with WIFA officials, they said that in their review of documentation, they had identified two other projects that had already been completed without any funds being drawn.

A mid-point on-site project observation visit was especially critical for Eloy, where we found the contractor had installed some water meters that were not made in the United States. We brought this to the attention of Eloy city officials, who assessed how extensive the problem was and found more than 100 meters that needed to be replaced with American-made products at the contractor's expense. WIFA immediately sent an alert to all subrecipients to make them aware of potential problems with water meters. In the cases above, WIFA did not have a working "trigger" to let it know that these projects were nearly complete and to require an inspection for compliance with Recovery Act provisions and other loan requirements.

### WIFA Is Taking Actions to Strengthen Its Monitoring Efforts

In our discussions with WIFA officials, they recognized the need to take immediate actions to strengthen their monitoring program because of weaknesses in their existing processes. The officials also acknowledged that subrecipients' self-certification cannot always be relied on and that they will need to perform more detailed checks when conducting their inspections. Previously, according to these officials, staff had been spot-checking projects and borrowers' certifications of Recovery Act requirements but not reviewing the documentation to support those requirements.

On March 11, 2010, EPA provided Arizona an inspection checklist to assist in evaluating subrecipients' compliance with Recovery Act requirements during WIFA on-site reviews or other inspections. WIFA forwarded the checklist to all subrecipients and scheduled site visits to familiarize the

subrecipients with the new checklist requirements. A senior loan officer is also assessing all 46 projects against the new checklist through June. Furthermore, although EPA officials told us that using this checklist is voluntary, WIFA's executive director is making it mandatory and has revised its monitoring process so that inspectors will use the checklist during on-site project observations.

To address the issue of subrecipients not drawing down their funds in a timely manner, the executive director has begun contacting project officials. The WIFA officials said they were surprised that subrecipients were not approaching them earlier to draw on their Recovery Act funding since the subrecipients had to pay their contractor invoices and would soon be paying interest on their WIFA loans. Further, according to these officials, with a bond issue approaching, they needed to have a general idea of their expected cash flow so that they could determine their bond request.<sup>15</sup> While the steps WIFA has taken to strengthen its monitoring of Recovery Act funds appear to address the issues we identified, because these monitoring changes are still new, it was too early for us to evaluate their effectiveness.

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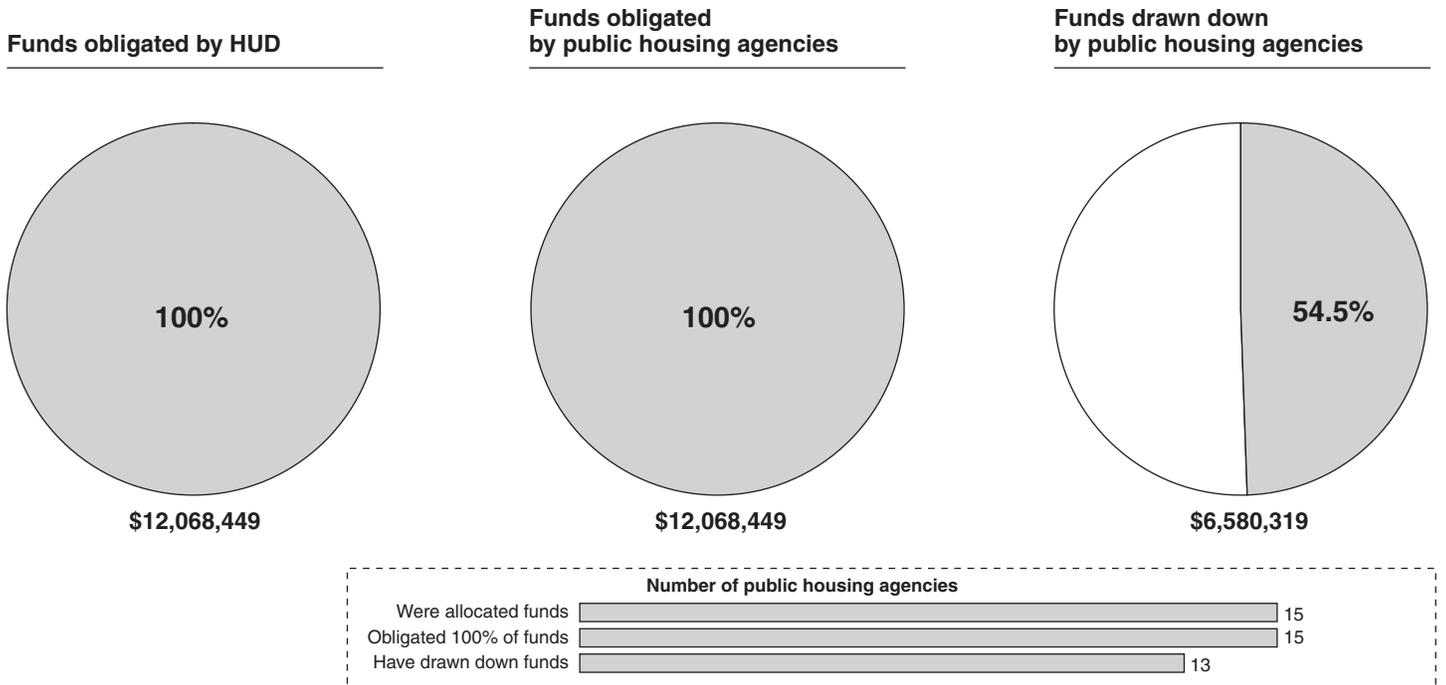
## All Arizona Public Housing Agencies That Received Funds Have Obligated Them, but Monitoring Requirements Could Pose Workload Capacity Challenges

Of the 25 public housing agencies in Arizona, 15 collectively received \$12.1 million in Public Housing Capital Fund formula grants under the Recovery Act. These grant funds were provided to the agencies to improve the physical condition of their properties. As of March 17, 2010, the recipient public housing agencies had obligated 100 percent of the \$12.1 million. Also, 13 of the recipient agencies had drawn down a cumulative total of almost \$6.6 million from the obligated funds, as of May 1, 2010 (see fig. 3). We visited five housing agencies to determine the progress of their projects: the Flagstaff, Nogales, Pinal County, and South Tucson Housing Authorities and the Tucson Housing and Community Development Department.

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<sup>15</sup>WIFA operates as a bank with the authority to issue bonds on behalf of communities for basic water infrastructure projects. The officials told us that they approach their bond rating agencies in late May and that they will issue bonds in July. They need to know how much of their loans will be drawn by their borrowers before this time because the draws affect WIFA's collateral and cash flow in the coming year.

**Figure 3: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down in Arizona as of May 1, 2010**



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

### Agencies Met Deadline for Obligating Funds after HUD Assisted Two Troubled Housing Agencies

The Recovery Act requires that housing agencies obligate 100 percent of their funds within 1 year from when the funds become available; all 15 housing agencies met the March 17, 2010, deadline. However, the HUD field office worked extensively with the state's two troubled housing agencies, Eloy and South Tucson, to obligate their funds in time. Under the Public Housing Assessment System,<sup>16</sup> troubled agencies are required to comply with a memorandum of agreement to resolve identified deficiencies by certain target dates. According to officials in the HUD field office, Eloy has been designated a troubled housing agency for more than

<sup>16</sup>HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program, including the financial condition, management operations, and physical condition of programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

4 years due to long-standing management capacity problems, while South Tucson has been designated a troubled housing agency for the past 3 years because their HUD-mandated annual audits—which are included as part of the city’s audit—have been late.<sup>17</sup> Further, any troubled housing agency eligible to receive Recovery Act capital fund formula grants was evaluated to determine its level of risk, and both Eloy and South Tucson were classified as medium risk. In accordance with its monitoring strategy, HUD required its field office staff to review and approve all award documents—such as solicitations, contracts, or board resolutions, where applicable—prior to the troubled housing agency soliciting bids for any work, obligating Recovery Act funds, or requesting to draw down funds.<sup>18</sup> In addition, a team composed of one HUD field office staff member and three expert level staff members from other HUD field offices conducted remote and on-site reviews of the two troubled housing agencies, providing technical assistance during their reviews. As a result, both troubled housing agencies met the obligation deadline in March.

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### Housing Agencies Are Completing Projects, and Officials Said Lower-Than-Expected Bids Make Funds Go Further

The housing agencies we visited were continuing to make progress with Recovery Act funds. The agencies had completed paving projects in Nogales; remodeling of unit interiors with new cabinets, hot water heaters, and plumbing fixtures in Tucson; and window, appliance, and furnace replacements in Flagstaff. Ongoing Recovery Act projects include heating, ventilation, and air conditioning system upgrades or replacements and interior rehabilitation work, such as kitchen and bathroom renovations. Tucson’s housing agency, for example, estimates its project costs will range from \$12,890 for new plumbing fixtures and painting and patching of

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<sup>17</sup>According to officials at the HUD field office, both Eloy and South Tucson are taking steps toward being removed from troubled status, but they will remain on the list until removed by HUD headquarters. The HUD Inspector General has closed out its findings for Eloy’s previous report on management capacity; however, the remaining item from its Recovery Act report will not be closed out until Eloy’s contract is completed and expenditures drawn down. South Tucson has arranged for an independent audit of its capital funds program so that it can meet future HUD annual deadlines. Any housing agency that was considered troubled when Recovery Act funding was allocated is considered troubled for the purposes of the Act.

<sup>18</sup>The Recovery Act provided HUD the authority to decide whether to provide troubled housing agencies with Recovery Act funds. Although HUD determined that troubled housing agencies have a need for this funding, it acknowledged that troubled housing agencies would require increased monitoring and oversight in order to meet Recovery Act requirements.

all interior walls at one single-family house to more than \$190,000 for installation of a new chilling tower at a 74-unit building.

Officials from four of the five housing agencies we visited stated that they received bids that were lower than expected in part due to economic conditions. Contractors have little work, so they are submitting lower bids in order to have projects and keep their staff employed. As a result, housing agencies were able to add projects eligible for Recovery Act funds before the obligation deadline. For example, the Nogales Housing Authority was able to add projects to install security fencing and cameras, replace lighting with more efficient bulbs in more than 200 units, and repave some damaged parking lots, and the Flagstaff Housing Authority was able to include window replacements in its administrative building renovation.

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### HUD Field Office Staff Have Met Monitoring Requirements to Date but Future Monitoring Could Test Staff Capacity

In addition to issuing frequent reminders as the March 17, 2010, obligation deadline approached, the HUD field office also completed HUD-mandated on-site and remote reviews of each housing agency that received the Recovery Act formula grants to determine if it was administering the program in accordance with all applicable requirements under the Recovery Act. Field office staff used checklists that HUD headquarters had developed for these reviews of both troubled and nontroubled housing agencies. All 15 housing agencies received a remote review and 8 of those also received an on-site review. According to officials in the HUD field office, these systematic reviews across the state identified potential issues and enabled HUD to provide better guidance to housing agencies on procurement policies, among other topics. For example, the reviewers found that many housing agencies needed to amend their written procurement policies to facilitate the use of Recovery Act funds and had questions about the Buy American provisions. Following the reviews, HUD field office staff provided housing agencies written summaries with deficiencies on noncompliant items and required the housing agencies to submit documentation to resolve identified problems.

Conducting these remote and on-site reviews, following up with housing agency officials on the deficiencies, and continuing coordination between the field office and the housing agencies have been challenging. According to the officials, they would have preferred to have all issues resolved before funds were fully obligated but were unable to do so, and they did not know what impact this might have. The officials told us that normally one person in their office conducts all housing agency reviews. However, to manage the workload required to meet Recovery Act requirements, the

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program coordinator has involved six of the office's eight staff members in conducting and following up on these reviews.

Addressing remaining issues from the reviews and new monitoring requirements could pose challenges. For example, the checklists being used to perform the reviews prior to the obligation deadline are more detailed than past checklists and require HUD to collect more documents than it normally requests. In addition, the officials said that their headquarters is in the process of developing a new monitoring strategy for after the obligation deadline. They anticipate new checklists and the responsibility for reviewing expenditures, but do not yet know the expected scope and depth of the review for Arizona or its potential impact on their capacity to carry out those requirements.

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## Despite Recovery Act Funds, Arizona has Reduced State Spending and Asked Voters to Increase State's Sales Tax to Address Budget Shortfalls

A goal of the Recovery Act is to help stabilize states during the current recession. According to officials in the Governor's office, Recovery Act funds are supporting Arizona through difficult budget deficits as economic forecasts by the state legislature's finance advisory committee project Arizona state revenue will not return to 2007 levels until 2015.

For fiscal year 2010, Arizona faced a shortfall of about \$3.3 billion in its \$9.7 billion budget. Recovery Act funds for fiscal 2010 totaled \$1.3 billion, reducing the shortfall to about \$2 billion. The legislature met in several special sessions and finally closed the shortfall in March by significantly reducing spending, acquiring additional debt, and "sweeping" surpluses from state funds.

According to a Joint Legislative Budget Committee analysis, Arizona anticipates receiving \$579.4 million of Recovery Act funds for education and the increased Federal Medical Assistance Percentage for Medicaid.<sup>19</sup> These Recovery Act funds will help alleviate strains on the state budget, but even with these funds the state faced an estimated shortfall of \$2.58 billion in fiscal year 2011. Legislators enacted a balanced state budget through spending reductions totaling about \$876 million and new revenue of about \$1.7 billion. The spending reductions were largely in

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<sup>19</sup>The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The rate at which states are reimbursed for Medicaid service expenditures—the Federal Medical Assistance Percentage—was increased temporarily by the Recovery Act.

education<sup>20</sup> and health care,<sup>21</sup> according to a Joint Legislative Budget Committee staff analysis. The largest source of new revenue is coming from a voter-approved temporary 1 cent increase to the state sales tax, effective June 1, 2010. This tax is estimated to produce approximately \$918 million in new revenue in fiscal year 2011, and is dedicated to health and human services, public safety, and basic state aid for education.

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**Arizona's Governor Plans to Use SFSF Government Services Funds to Continue Providing Some State Services in Corrections, as well as Health and Children's Services**

The Recovery Act grants states' governors 18.2 percent of the state's total SFSF allocation to use for public safety and other government services—this grant is referred to as government services funds. Arizona's Governor has committed approximately \$110 million of Arizona's \$185 million in government services funds as of May 4, 2010, to fund programs that had been reduced or eliminated in the legislature's budget balancing efforts for fiscal years 2010 and 2011. Of the \$110 million, the Arizona's Governor has committed approximately \$43.3 million to the Arizona Department of Economic Security for child protective services, adoption, autism services, and home and community based services for children with developmental disabilities. The state's funding for these programs was reduced or eliminated in fiscal year 2010 and was not restored in the fiscal year 2011 enacted budget, according to Joint Legislative Budget Committee staff analyses. Arizona Department of Economic Security officials estimate this funding provides services for approximately 5,733 persons with developmental disabilities or autism. In addition, the Governor has committed \$11.6 million for state subsidies to community health centers that provide medical and dental visits for the uninsured. Funding for this program had been substantially reduced in the fiscal year 2010 state budget, in addition to the reductions to state health services discussed above, and was not restored in the enacted fiscal year 2011 budget, according to Joint Legislative Budget Committee staff analyses. As of April 16, 2010, the state has drawn down approximately \$72.6 million of the

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<sup>20</sup>According to Joint Legislative Budget Committee staff documents, \$43 million of these cuts were made to supplemental education programs, such as support for gifted education and dropout prevention programs. The remaining reductions in funding for education were made to the state's formula funding provided to school districts to cover basic maintenance and operations costs. These reductions leave Arizona education funding above the 2006 level, as required under the Recovery Act State Fiscal Stabilization Fund provisions.

<sup>21</sup>Arizona Medicaid officials reported that the reduction in program eligibility contained in the fiscal year 2011 budget would become effective on January 1, 2011. However, in May 2010, state legislation was enacted that restores these eligibility reductions if federal legislation to extend the temporary increase in the Federal Medical Assistance Percentage is enacted, providing an additional \$394 million in Recovery Act funds for Arizona.

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OER Plans to Monitor  
Subrecipients Use of Funds

SFSF government services funds, including \$50 million to partially fund 1,305 Arizona Department of Corrections officers' salaries over five pay periods.

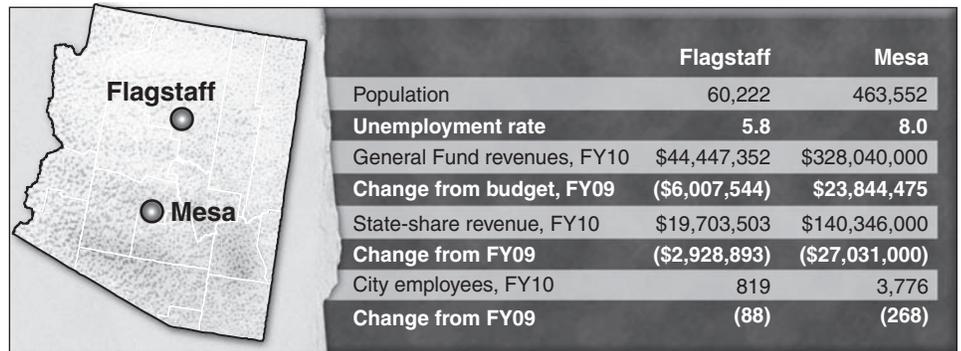
The SFSF government services funds will be monitored in Arizona by OER. As requested, Arizona provided the U.S. Department of Education with a draft monitoring plan for SFSF, including the government services funds, on March 12, 2010, for review. Because much of the government services funds are funding existing programs such as those operated by the Arizona Department of Health Services and the Arizona Department of Economic Security, OER plans to have those agencies continue monitoring the subrecipients and has begun to review those agencies' monitoring systems.

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Recovery Act-Funded  
Projects in Mesa and  
Flagstaff Deliver  
Services as well as  
Employ Local  
Workers and Are  
Expected to Provide  
Long-Term Benefits

With local governments in Arizona facing declining revenues and steep budget reductions, we spoke with two cities, Mesa and Flagstaff, about their receipt and use of Recovery Act funds. Budget managers we met with in both cities said that they are facing budget shortfalls this fiscal year due to declines in state funding for programs, tax revenues, and fees. Figure 4 highlights demographic and budget information about the two local governments we visited.

**Figure 4: Demographic and Budget Profile for Flagstaff and Mesa**



Sources: GAO analysis of U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics (LAUS) and cities of Mesa and Flagstaff.

Note: City population data are from the latest available estimate, July 1, 2008. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions. In Mesa, the General Fund includes selected federal grants. Also in Mesa, state shared revenues are comprised of sales tax, income tax, and auto-in-lieu (which go into the General Fund) and highway user tax and lottery funds (which go into separate funds). In Flagstaff, state shared revenues from sales and income taxes go into the General Fund while shared revenues from highway user taxes go into the Highway User Revenue Fund. City employees refer to budgeted authorized personnel, both full-time equivalents and temporary workers.

According to grant personnel in Mesa and Flagstaff, both cities actively pursued Recovery Act funds. For example, Mesa secured the services of a private firm to learn about grant opportunities. Table 4 presents the federal grants that both cities manage, including Recovery Act funds.

**Table 4: Federal Grants that Mesa and Flagstaff Manage, Including Recovery Act Funds**

Local government	Mesa	Flagstaff
Recovery Act funds awarded (number of programs)	\$57,507,708 (14)	\$4,038,194 (8)
All federal grants currently managed by the city, including Recovery Act funds (budgeted)	\$80,110,000	\$10,761,479

Source: Cities of Mesa and Flagstaff data.

Note: Data presented in this table reflect figures as of fiscal year 2010, ending June 30, 2010, in both cities. Funds awarded to tribal nations are not included among Recovery Act funds.

Of the \$57.5 million in Recovery Act funds awarded to Mesa, federal agencies provided approximately \$16.5 million directly, while the remainder was awarded to state agencies, which in turn passed the funds onto the city. Flagstaff received approximately \$2.6 million in Recovery

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Act funds directly from federal agencies and the remainder of the \$4 million through state agencies.

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**Both Cities Sought Funds to Support Short-Term Projects That Use Partners to Deliver Services**

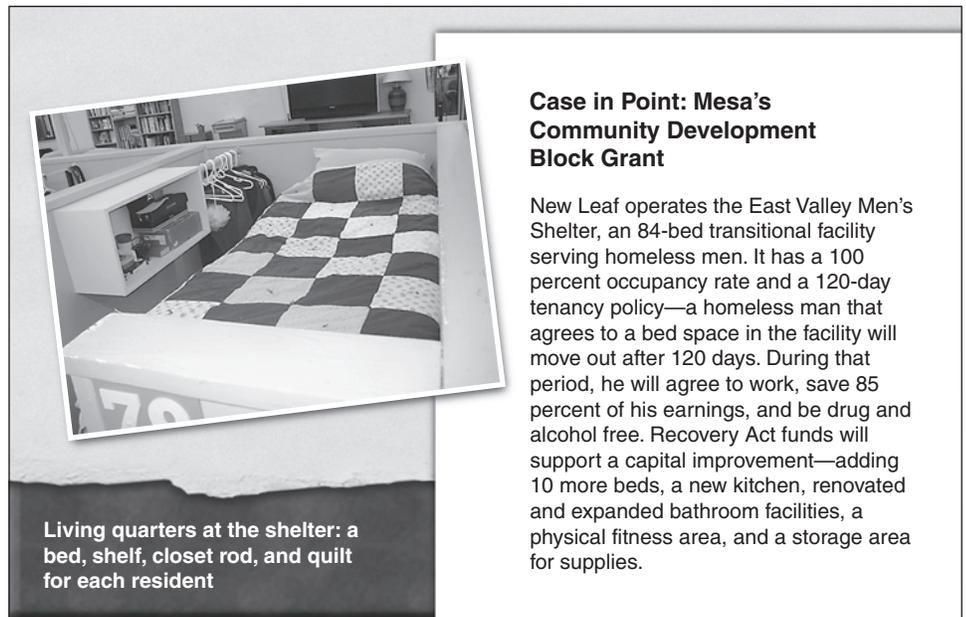
Both Mesa and Flagstaff sought funds to support short-term projects that were of high priority but lacked resources. In both cities, officials prepared a list of priority projects that were shovel ready, would benefit from Recovery Act funding, and would be complete within the term of the grant, with the exception of COPS funds,<sup>22</sup> which require an additional year of funding. The formula grants the cities received support community development, emergency shelter, health centers, capital improvements, transportation, and criminal justice operations, while competitive grant awards fund hiring and retention of law enforcement officers, construction of fire stations, and hazardous substance cleanup. In partnership with local nonprofit organizations, community organizations, and other government agencies, both cities are delivering services to a wider population of the community than would otherwise have been possible.

For example, in Mesa, the city used Recovery Act Community Development Block Grant funds on a capital improvement project that would upgrade a homeless shelter for men, as presented in figure 5.

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<sup>22</sup>Details of COPS funds are described on page AZ-11.

**Figure 5: City of Mesa’s Use of Recovery Act Funds**

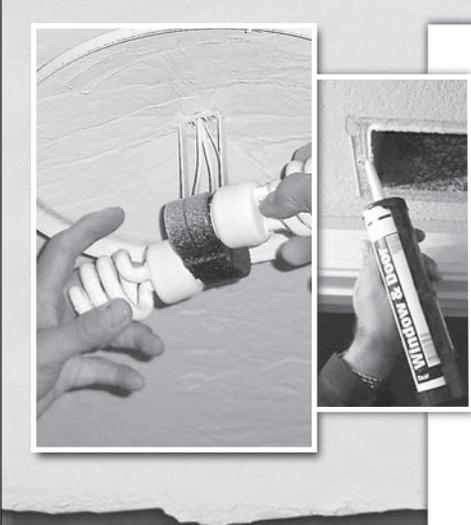


Source: A New Leaf.

The one-time expansion will allow the facility to serve 30 more homeless men every year. Mesa partnered with New Leaf, a nonprofit human services agency, to upgrade the men’s shelter, thereby serving more of its homeless population than the city could reach alone.

Flagstaff officials also said that the city chose to use many grants to support one-time investments. Figure 6 describes an example of the Energy Efficiency and Conservation Block Grant awarded to the city to support previously identified priorities through one-time energy and water efficient improvements in Flagstaff homes.

**Figure 6: City of Flagstaff’s Use of Recovery Act Funds**



**Case in Point: Flagstaff’s Energy Efficiency and Conservation Block Grant (EECBG)**

Flagstaff residents can reduce energy and water consumption in their homes under a residential energy efficiency program developed by the city. The program offers basic home improvements performed by a licensed contractor, such as insulation of a hot water heater line, installation of a high efficiency water fixture, and air leak and duct sealing, along with conservation education and consumption monitoring and verification. Residents pay a fee, based on household income, for the service performed in the home. Recovery Act funds will be leveraged against these fees to subsidize the participants’ costs and increase the total number of retrofits provided. Ultimately, the program aims to change the behavior of Flagstaff citizens to reduce water and energy consumption in their homes by enabling residents to track their energy usage.

The grant will be used to fund retrofits that will result in reduced energy consumption and water use in the home.

Source: City of Flagstaff.

According to officials, the program was designed in concert with neighborhood-based groups, universities, vendors, and contractors and developed in partnership with Coconino County to leverage funds, staffing, advertising, and outreach. These partnerships allow the program to reach more members of the community—including county residents and selected neighborhood associations—than would have otherwise been possible.

**Recovery Act Funded Projects Employ Local Workers; Audits and Performance Measurement Data Will Help to Demonstrate the Recovery Act’s Long-Term Benefits**

Officials in both Mesa and Flagstaff said that Recovery Act funds are expected to create jobs and have long-term benefits. Over time, data on these outcomes, as well as fiscal audits of the grants, will become available. For example, Recovery Act Community Development Block Grant funds—which will support the expansion of the East Valley Men’s Shelter in Mesa—are expected to create construction-related jobs in fiscal year 2010. As for long-term benefits, the shelter’s increased capacity will serve more homeless men in their efforts to be fully employed. Table 5

presents examples of expected short- and long-term outcomes of Recovery Act supported programs.

**Table 5: Examples of Expected Short- and Long-Term Outcomes of Recovery Act Funded Programs**

City	Funds <sup>a</sup>	Short-term outcome (number of jobs paid for with Recovery Act funds)	Long-term outcome (expected)
Mesa	Community Development Block Grant	15	Increased number of beds and helping homeless men that return to work.
Mesa	Fire station construction	160	Reduced response times and increased public safety.
Flagstaff	WIFA loan: Sinagua well construction <sup>b</sup>	8	Reliable drinking water source.
Flagstaff	Energy Efficiency and Conservation Block Grant	8-12	Energy and water resource savings, household utility cost savings, and reduced greenhouse gas emissions.

Source: Cities of Mesa and Flagstaff data.

<sup>a</sup>Details of these Recovery Act funds are described in Appendix V.

<sup>b</sup>Details of the Water Infrastructure Finance Authority-funded program are described on page AZ-15.

In addition, officials with the Flagstaff Sustainability Program expect to see data on utility cost savings (dollars per year), energy savings (kilowatt hours per year), and water savings (gallons per year) once homes are retrofitted.<sup>23</sup> With these data, the city will be able to tell if the program is meeting intended targets and if the program’s educational material is working to result in behavioral change of the city’s population to conserve energy and water.

Along with performance monitoring, Recovery Act funded projects are subject to fiscal oversight during each city’s annual Single Audit<sup>24</sup> of federal funds received. Audits are performed to check that the systems in place, or internal controls, ensure that the funds are spent properly. Most of the Recovery Act funds will be examined during each city’s fiscal year 2010 Single Audit, since most of the funds were or will be expended during this year. The results of these audits are expected by December 2010. Officials in both cities reported that prior Single Audits did not find any problems in the programs or with the entities that are using Recovery Act

<sup>23</sup>Officials also noted that program outcomes are being studied by the Brookings Institution.

<sup>24</sup>Single Audit is described in further detail on page AZ-29.

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funds, so the officials expect that the funds are a low risk for fraud, waste, abuse, or mismanagement.

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## State and Local Agencies in Arizona Are Just Beginning to Audit Recovery Act Funds Because Few Funds Were Spent in Fiscal Year 2009

State agencies, local governments, and program managers monitor, to varying degrees, the use of Recovery Act funds; however, formal auditing of the funds is important to ensure that the funds are used in compliance with the provisions of the Recovery Act and federal agency requirements. We found that the 19 state and local agencies<sup>25</sup> we spoke with in Arizona that have oversight responsibilities for Recovery Act funds will be undertaking a range of activities, including both monitoring and auditing. However, because most entities had expended only a fraction of Recovery Act funds in 2009, they have just started comprehensive audit activities in 2010.

The Single Audit is a significant tool used to oversee expenditures of Recovery Act funds and ensure accountability of the federal awards. In Arizona, the Auditor General will be responsible<sup>26</sup> for ensuring that Recovery Act funds granted to state agencies and universities are included under the state's annual Single Audit. Each community college and county has its own Single Audit, conducted either by the Auditor General or by firms contracting with the Auditor General. School districts will be responsible for their own Single Audits, generally contracting with independent auditing firms to conduct the audits. Officials in the Auditor General's office pointed out that since only a fraction of Recovery Act funds were spent during fiscal year 2009, most of the funds will be subject to the fiscal year 2010 audit.

In addition to the Single Audit, some local governments have conducted audits specific to Recovery Act funds. For example, the Phoenix city auditor reviewed departmental procedures for compiling data for its Recovery Act recipient reporting and found that the procedures are in place to ensure accuracy, completeness, and timeliness of the reporting.<sup>27</sup>

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<sup>25</sup>Our review focused on the state and local efforts; however, certain federal agencies—as well as inspectors general—also are responsible for programs funded by the Recovery Act.

<sup>26</sup>For Arizona, the Auditor General serves as the state's auditor for the Single Audit; some of the audits are performed by the Auditor General directly while others are contracted out with independent accounting firms.

<sup>27</sup>"American Recovery & Reinvestment Act Review, Citywide, Interim Report, Project Number: 1100071," City of Phoenix, Arizona, November 2009.

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The city auditor is currently undertaking another audit that tests the accuracy and completeness of the data on reported use of funds.

State agencies and local governments also monitor use of the Recovery Act funds. For example, the OER has developed a plan to oversee state agencies' use of Recovery Act funds and the Arizona Department of Education has monitoring programs in place. We will continue to review how agencies are safeguarding Recovery Act funds in our future work.

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## State Comments on This Summary

We provided the Governor of Arizona with a draft of this appendix on May 5, 2010. The Director of the Office of Economic Recovery responded for the Governor on May 7 and 12, 2010. Also, on May 7, 2010, we received technical comments from the State of Arizona Office of the Auditor General. In general, the state agreed with our draft and provided some clarifying information which we incorporated.

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## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Steven Calvo, Assistant Director; Lisa Brownson, auditor-in-charge; Karyn Angulo; Rebecca Bolnick; Roy Judy; Jeff Schmerling; and Radha Seshagiri made major contributions to this report.

# Appendix II: California

## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)<sup>1</sup> spending in California. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

## What We Did

This appendix is based on GAO's work in California and provides a general overview of (1) California's uses of Recovery Act funds for selected programs, (see table 1), (2) the steps California agencies are taking to ensure accountability for these funds, and (3) the impacts that these funds have had on creating and retaining jobs. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

**Table 1: Description of Selected Recovery Act Programs**

Recovery Act program	Selected Recovery Act program funding levels and program purposes
Clean and Drinking Water State Revolving Funds (SRF)	<ul style="list-style-type: none"><li>The Environmental Protection Agency (EPA) allocated about \$439 million in Recovery Act capitalization grants for Clean and Drinking Water SRF programs to California.</li><li>These funds are to be used primarily for grants and loans to local governments and other entities for wastewater and drinking-water infrastructure projects and pollution projects intended to protect or improve water quality.</li></ul>
COPS Hiring Recovery Program (CHRP)	<ul style="list-style-type: none"><li>The Department of Justice (DOJ) awarded approximately \$211 million to 109 law enforcement agencies in California under CHRP.</li><li>CHRP is a competitive grant program that directly funds law enforcement agencies for hiring, rehiring, or filling previously unfunded career law enforcement positions and increasing community-policing capacity and crime-prevention efforts.</li></ul>
Edward Byrne Memorial Justice Assistance Grants (JAG)	<ul style="list-style-type: none"><li>DOJ awarded California with a total of about \$225 million in JAG Recovery Act funds.</li><li>JAG is a federal grant program to state and local governments for law enforcement and other criminal-justice activities, such as crime prevention and domestic violence programs, corrections, drug treatment, justice information-sharing initiatives, and victims' services.</li></ul>
Weatherization Assistance Program	<ul style="list-style-type: none"><li>The Department of Energy (DOE) allocated approximately \$186 million in total Recovery Act weatherization funding to California to be spent over a 3-year period.</li><li>This program enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment.</li></ul>
Workforce Investment Act of 1998 (WIA) Dislocated Worker Program	<ul style="list-style-type: none"><li>The U.S. Department of Labor (Labor) distributed about \$222 million of the over \$1 billion provided under the Recovery Act for WIA Dislocated Worker Program activities to California.</li><li>The purpose of the program is to provide employment and training services to dislocated workers that increase their employment, retention, skills, and earnings.</li></ul>

Source: GAO.

<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

To determine how California used Recovery Act funds under selected programs, we met with officials from state agencies in charge of administering program funds. We also met with recipients and subrecipients of Recovery Act funds in four local jurisdictions—the City of Los Angeles (Los Angeles), the County of Sacramento (Sacramento), the City and County of San Francisco (San Francisco), and the City of San Diego (San Diego). For the Clean and Drinking Water SRF programs, we selected five projects to conduct in-depth reviews: two Clean Water SRF projects and three Drinking Water SRF projects. These projects were chosen to capture a variety of characteristics, including green and not-green projects and projects serving disadvantaged and not-disadvantaged communities.<sup>2</sup>

To assess the steps taken by California agencies to ensure accountability for Recovery Act funds, we interviewed officials from the California Recovery Task Force (Task Force), which was established by the Governor in March 2009 and has overarching responsibility for ensuring that the state’s Recovery Act funds are spent efficiently and effectively and are tracked and reported in a transparent manner. We also met with California’s Recovery Act Inspector General, the California State Auditor, and selected state agencies to obtain information or updates on their oversight and auditing activities. In addition, we reviewed products, such as guidance memorandums, letters, and reports, issued by these agencies related to the Recovery Act.

To assess the effect Recovery Act funds have had on job creation and retention, we reviewed the information California recipients reported on [www.recovery.gov](http://www.recovery.gov) (Recovery.gov). As required by the Recovery Act, recipients of Recovery Act funds must report quarterly on several measures, including estimates of the jobs created or retained using Recovery Act funds. To collect this information, the Office of Management and Budget (OMB) and the Recovery Accountability and Transparency Board created a nationwide data-collection system to obtain data from recipients, [www.federalreporting.gov](http://www.federalreporting.gov) (FederalReporting.gov), and another

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<sup>2</sup>The Recovery Act requires states to reserve at least 20 percent of their capitalization grants under these programs to fund “green” projects that address green infrastructure, water or energy-efficiency improvements, or other environmentally-innovative activities. In addition, both the State Water Resources Control Board (WRCB), which administers the Clean Water SRF program, and the California Department of Public Health (CDPH), which administers the Drinking Water SRF program, define disadvantaged community as a community with an annual median household income that is less than 80 percent of the statewide median household income.

site for the public to view and download recipient reports, Recovery.gov. In addition, we met with the Task Force to obtain current information on the state's experience in meeting Recovery Act reporting requirements and preparing the state's quarterly report ending March 31, 2010. We also followed up with the California Department of Education (CDE) and 10 local educational agencies (LEA) on issues related to estimating and reporting jobs that we testified on before the Committee on Oversight and Government Reform, House of Representatives, on March 5, 2010.<sup>3</sup> Our prior work has focused on three Recovery Act education programs with significant funds being disbursed—the State Fiscal Stabilization Fund (SFSF) and Recovery Act funds for Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended (ESEA), and the Individuals with Disabilities Education Act (IDEA), as amended, Part B.

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## What We Found

California used Recovery Act funds to expand and preserve existing services. Several programs we reviewed experienced significant increases in funding as a result of the Recovery Act, which allowed California to expand those programs and services. Specifically, the Recovery Act more than doubled the program budgets for the JAG and Weatherization Assistance Programs and allowed recipients to increase capacity and provide additional services to California residents. This additional funding made available by the Recovery Act has affected the timing of spending for certain programs, as well as other factors such as the implementation of new activities and requirements. For example, since California received a significant increase in JAG funds through the Recovery Act, the California Emergency Management Agency (Cal EMA), the state agency administering these funds, needed time to define new program activities before awarding funds to local jurisdictions. Cal EMA officials told us that they wanted to carefully plan for the use of these funds and as a result the agency did not begin awarding funds until February 2010. Recovery Act funds have also helped preserve services, but budgetary gaps remain at the state and local level. The state used about \$8 billion in Recovery Act funds to help balance its state fiscal year 2009-2010 budget, but state officials do not anticipate receiving this type of general budgetary relief from Recovery Act funds in the 2010-2011 state general fund budget, which faces a \$21 billion shortfall. Local governments we met with used Recovery Act funds to preserve services, despite overall budgetary

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<sup>3</sup>GAO, *Recovery Act: California's Use of Funds and Efforts to Ensure Accountability*, GAO-10-467T (Washington, D.C.: Mar. 5, 2010).

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pressures. For instance, officials from two local governments we visited—Los Angeles and San Francisco—stated that CHRP grants were particularly useful in helping them maintain staffing levels within their law enforcement workforce.

Since the Recovery Act was enacted in February 2009, California state audit and oversight entities have taken various actions to oversee the use of Recovery Act funds. In our previous reports on Recovery Act implementation, we discussed the oversight roles and activities of key entities in California for Recovery Act funds, including the Task Force, the Recovery Act Inspector General, and the State Auditor. State oversight entities, for example, have conducted risk assessments of internal control systems, provided guidance to recipients of Recovery Act funds, and issued reports highlighting concerns with the use of Recovery Act funds. For example, as of May 2010, the State Auditor has conducted reviews of 32 Recovery Act programs and published nine products with the results of these reviews. State agencies are also responsible for, and involved in, oversight and audits of Recovery Act programs. For example, WRCB officials told us it is using existing internal controls—which include regular contact with subrecipients, reviews of reimbursement requests, and a requirement for subrecipients to conduct financial statement audits—and has also implemented new procedures, such as enhanced project inspections using a Recovery Act checklist recently developed by EPA.

According to Recovery.gov, recipients of Recovery Act funds in California reported funding over 70,000 full-time equivalents (FTE) during the third reporting period; however, problems continue with CDE's reporting and review of jobs data, calling the reliability of California's FTE estimates into question. Of the FTEs reported, over 46,000 were education-related jobs funded by Recovery Act education programs. However, as we reported in March 2010, LEAs awarded contracts using Recovery Act funds and either did not report or underreported vendor jobs associated with these contracts. For example, after we brought this to the attention of one LEA, it reported that its vendor jobs estimate increased from 12 to 79 when it recalculated the jobs associated with all Recovery Act contracts. CDE, as the prime recipient of Recovery Act education funds, has not issued detailed guidance to LEAs on collecting and reporting vendor jobs. According to CDE, it will provide clarifying guidance to LEAs when it communicates with them regarding the next reporting period. In addition, our review of 10 large LEAs found that CDE's data-reliability strategies did not always identify questionable LEA FTE estimates. Until CDE issues more specific guidance to LEAs on vendor jobs and follows up with them

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to help ensure proper implementation; in addition to revising its approach to assessing the reasonableness of LEA job estimates, the reliability of California's overall jobs reporting will continue be in question.

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## California Is Using Recovery Act Funds to Expand Programs and Preserve Services

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### Recovery Act Funds Allowed California to Expand Services for Some Programs

Overall, California expects to receive approximately \$85 billion in Recovery Act funds, including approximately \$55 billion for infrastructure and services such as public safety, education, and workforce training.<sup>4</sup> The Recovery Act provided increased funding to existing programs such as JAG, Weatherization Assistance, WIA Dislocated Worker, and Clean and Drinking Water SRF, which allowed state and local agencies to expand services in these areas. For instance:

- California state and local governments were allocated about \$225 million in JAG Recovery Act funds,<sup>5</sup> a significant increase from the fiscal year 2008 JAG allocations of about \$17 million. For example, Los Angeles received over \$11 million in JAG Recovery Act funds. Los Angeles officials told us that the city was able to dedicate the additional JAG funds to support gang-reduction efforts and develop communications infrastructure. Table 2 shows how three localities we visited are planning to use these funds.

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<sup>4</sup>The other \$30 billion in Recovery Act funds California expects to receive goes directly to individuals and businesses for tax relief.

<sup>5</sup>Of the approximately \$225 million in JAG Recovery Act funds, about \$135 million has been allocated to the state, part of which is passed onto localities. The remaining amount, approximately \$90 million, was allocated directly to local governments. The minimum percentage of Recovery Act JAG funds that the state of California is required to pass through to local governments, referred to as "state pass-through funds" in this appendix, is 67 percent.

**Table 2: Planned Uses of JAG Recovery Act Funds in Los Angeles, San Francisco, and San Diego**

Locality	State pass-through allocation (dollars)	Locality allocation <sup>a</sup> (dollars)	Planned uses
Los Angeles	\$375,000	\$11.1 million	<ul style="list-style-type: none"> <li>• Support gang-reduction efforts</li> <li>• Develop regional communications infrastructure aimed at increasing response capabilities of law enforcement and crisis personnel</li> <li>• Increase efforts of the Los Angeles Police Department’s anti-human-trafficking program through additional investigations to identify individuals involved in human trafficking</li> </ul>
San Francisco	2.4 million	3.0 million	<ul style="list-style-type: none"> <li>• Provide drug treatment to offenders</li> <li>• Raise awareness of human trafficking and increase the capacity of law enforcement to identify victims</li> <li>• Develop a probation system using a risk- and needs-assessment approach</li> <li>• Assess trends in drug-related crime and develop integrated strategies to suppress and prevent drug-related crime</li> <li>• Support a regional approach to reducing methamphetamine production and distribution</li> <li>• Provide a prosecutor to support complex cases</li> <li>• Provide intensive supervision of probationers</li> <li>• Implement a transitional housing voucher program for adults referred through drug court</li> <li>• Expand case-management capacity to high-risk youth referred through juvenile drug court</li> <li>• Provide outreach and crisis-response services</li> <li>• Provide support to traumatized individuals, family members, and community members</li> <li>• Partially fund the development of a shared criminal justice case-management system</li> </ul>
San Diego	n.a. <sup>b</sup>	3.1 million	<ul style="list-style-type: none"> <li>• Provide 4-year salaries and benefits for six positions, including a crime intelligence analyst, a laboratory technician, a criminalist, a latent print examiner, a probations officer and a management analyst</li> <li>• Procure communication equipment, such as cellular phone trackers and a secondary communication path for patrol vehicles</li> </ul>

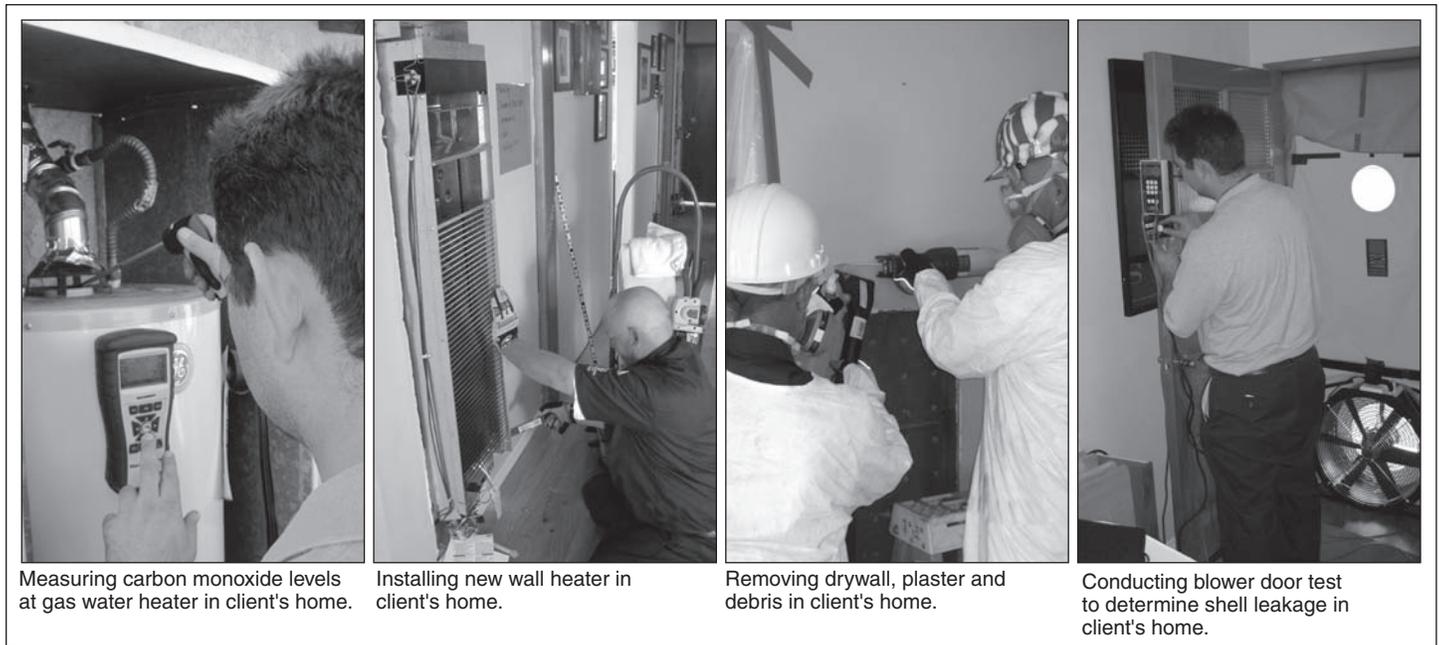
Source: GAO analysis of information provided by local law enforcement entities in Los Angeles, San Francisco, and San Diego.

<sup>a</sup>Los Angeles was allocated \$30.5 million in Recovery Act JAG funds. Of these funds, the city passed approximately \$16.4 million to 77 communities, including the cities of Beverly Hills, Long Beach, and Pasadena, because it served as a fiscal agent for those communities. Los Angeles used 10 percent (about \$3.1 million) to administer the grant among the 77 communities and \$11.1 million for Recovery Act JAG programs within Los Angeles. Similarly, San Diego received about \$6.4 million in Recovery Act JAG funds through the direct local allocation and retained \$3.1 million for Recovery Act JAG programs while passing along the remaining amount to the other communities for which it served as fiscal agent.

<sup>b</sup>n.a. = not applicable. As of March 30, 2010, San Diego had not been awarded any JAG state pass-through funds.

- California was allocated approximately \$186 million in Recovery Act funds to be spent over a 3-year period for weatherization in California, a large increase over California's annually appropriated weatherization program, which received about \$14 million for fiscal year 2009. The California Department of Community Services and Development (CSD)—the state agency responsible for administering the state's weatherization program—estimates that approximately 43,000 homes will be weatherized with Recovery Act funds. By June 2009, California had received 50 percent—about \$93 million—of its Recovery Act allocation. CSD retained approximately \$16 million to support oversight, training, and other state activities and has begun distributing the remaining \$77 million throughout its existing network of local weatherization service providers, including nonprofit organizations and local governments. Figure 1 shows improvements being made to a single-family home under the Weatherization Assistance Program with Recovery Act funds.

**Figure 1: Weatherization of a California Home Using Recovery Act Funds**



Source: Pacific Asian Consortium in Employment.

- California's WIA Dislocated Worker Program received about \$222 million in Recovery Act funds, which increased its budget from \$168

million in program year 2008-2009.<sup>6</sup> We visited two local workforce investment areas—the Los Angeles Community Development Department and the San Diego Workforce Partnership, Inc.—both of which provided more training programs using Recovery Act funds. Both agencies also directly awarded contracts to institutions of higher education, such as community colleges, under new authority provided by the Recovery Act. For instance, the San Diego Workforce Partnership, Inc. awarded contracts to 13 college campuses to provide training to adult and dislocated workers. Table 3 provides an overview of the planned uses of WIA Recovery Act funds for dislocated workers in the two areas we visited.

**Table 3: Planned Uses of WIA Dislocated Worker Program Recovery Act Funds in Los Angeles and San Diego**

Locality	Allocation (dollars)	Planned uses
Los Angeles	\$12,922,336	<ul style="list-style-type: none"> <li>• Serve an increased amount of customers through WorkSource Centers</li> <li>• Vocational training</li> <li>• High-growth initiatives</li> <li>• Training through institutions of higher education</li> </ul>
San Diego	8,967,124	<ul style="list-style-type: none"> <li>• Job training, including high-growth and green jobs, much of which is through institutions of higher education in healthcare, bio-technology, green / clean technology jobs, or infrastructure construction</li> <li>• Training to earn industry-recognized credentials through on-the-job training, customized training, and individual training accounts</li> </ul>

Source: GAO analysis of Los Angeles Community Development Department and the San Diego Workforce Partnership, Inc., information.

- The Clean and Drinking Water SRF programs also received a significant increase in funding from prior years. EPA allocated approximately \$439 million in Recovery Act SRF capitalization grants to California—about \$280 million for the Clean Water SRF and about \$159 million for the Drinking Water SRF. For fiscal year 2008, the base capitalization grants for the Clean and Drinking Water SRF programs were about \$49 million and \$66 million, respectively. Recovery Act Clean Water SRF funds have been awarded to 83 subrecipients for a total of 109 projects—such as replacing septic systems with connections to the municipal sewer system—which WRCB reports are intended to support the federal goal of fishable, swimmable waters.<sup>7</sup>

<sup>6</sup>The Workforce Investment Act program operates on a program year rather than a fiscal year basis. The program year for 2009 began on July 1, 2009 and will end on June 30, 2010.

<sup>7</sup>In this report we use the word “project” to mean an assistance agreement, that is, a loan or grant agreement made by the state SRF program to a subrecipient for the purpose of a Recovery Act project.

Recovery Act Drinking Water SRF funds have been awarded to 48 subrecipients for a total of 51 projects that, according to CDPH, are aimed at helping water systems come into compliance with federal regulations—thus reducing public health exposure to contaminants—or install water meters to improve water conservation in the state. Of the 160 Recovery Act–funded SRF projects in California, 107 are serving recipients that had never received base SRF funding in the past from the SRF program that awarded them Recovery Act funds. We selected 5 of the 160 projects to review the uses of Recovery Act funds and the expected benefits of these projects (see table 4).

**Table 4: Selected Recovery Act Clean and Drinking Water SRF Projects and Their Potential Benefits**

Project name	Project type	Estimated project cost (dollars)	Recovery Act award (dollars)	Project description	Examples of potential benefits
San Jerardo Cooperative Water System Improvements	Drinking Water	\$5,049,030	\$2,743,530	Install new well improvements, transmission pipeline, and water storage tanks, and demolish existing wells.	<ul style="list-style-type: none"> <li>Provide reliable source of safe drinking water.</li> <li>Replace existing wells from which untreated water contains excessive levels of nitrates and trichloropropane.</li> <li>Save county expense of temporary filtration system.</li> </ul>
City of Sacramento Water Meter Retrofit Project	Drinking Water	22,631,016	20,000,000	Install 16,500 underground water meters.	<ul style="list-style-type: none"> <li>Encourage water conservation by charging for actual use instead of flat rate.</li> <li>Save energy because city will not need to treat and produce as much water at its plants.</li> </ul>
Herndon Town Water System Project	Drinking Water	619,980	619,978	Replace private water system with connections to city water system.	<ul style="list-style-type: none"> <li>Provide reliable source of safe drinking water.</li> <li>Replace existing 60-year-old, dilapidated, chloroform-contaminated private water system.</li> </ul>
Herndon Town and Cortland / Fountain Way Sewer Systems Project	Clean Water	999,468	865,386	Replace individual private septic systems with connections to city sewer system.	<ul style="list-style-type: none"> <li>Decrease level of nitrates degrading and contaminating regional groundwater.</li> <li>Residents will become city rate payers eligible for city services including maintenance and operation of sewer system.</li> </ul>
Tomales Bay Wetland Restoration and Monitoring Program	Clean Water	2,010,500	807,129	Integrate restoration of Giacomini Wetland with water quality monitoring.	<ul style="list-style-type: none"> <li>Reduce pollutant loading to EPA-listed impaired water body.</li> <li>Improve water quality for contact and noncontact recreation.</li> </ul>

Source: GAO analysis of information provided by Monterey County, the City of Fresno, the City of Sacramento, and the Tomales Bay Watershed Council Foundation.

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## For Certain Programs, Planning for Expanded Activities, Meeting Recovery Act Requirements, and Prioritizing Available Funding Has Impacted Spending Timelines

One year later state and local recipients of Recovery Act funds for certain programs had either not yet spent or expended only small percentages of funds. In some cases, this was because significantly increased funding levels allowed recipients to expand their capacities, which necessitated additional planning before spending funds. For example, the Recovery Act substantially increased JAG funding, and as of January 31, 2010, Cal EMA, the state agency responsible for administering JAG funds, had not awarded any of the share of \$135 million in JAG funds that is to be passed through the state to localities, largely because it spent time developing two new program activities. According to Cal EMA officials, following the distribution of Recovery Act funds by DOJ, they spent about 3 months defining program strategies for 2 of the 10 targeted funding areas: the Intensive Probation Supervision Program and the Court Sanctioned Offender Drug Treatment Program. These two new program activities accounted for \$90 million of the \$135 million in state grant money available to local jurisdictions. Cal EMA officials stated that they took the time to initially plan these programs carefully as opposed to quickly awarding funds and having to fix problems later. As a result, applications for these funds were not accepted by Cal EMA until the end of October 2009 and, Cal EMA did not begin awarding funds to local jurisdictions until February 2010. The State Auditor recently raised concerns about the pace of awards by Cal EMA noting that as of February 22, 2010 only 4 subgrants had been awarded.<sup>8</sup> Cal EMA subsequently reported that, as of March 11, 2010, it had awarded 204 of the 226 JAG Recovery Act grants it planned to award local jurisdictions, for a total of about \$117 million of the \$135 million. Cal EMA officials told us that they anticipate JAG Recovery Act funds will be expended in 2 years, well before the 4 year spending period ends.

In addition to planning for new activities, we also found that the state recipient for weatherization funds, CSD, took steps to ensure compliance with Recovery Act requirements before spending funds. As we previously reported, Labor determined the state's prevailing wage rates on September 3, 2009, or almost 3 months after CSD received funds from DOE. In addition, CSD requires service providers to adopt an amendment to their Recovery Act weatherization contracts to ensure that they comply with

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<sup>8</sup>California State Auditor, Bureau of State Audits, *California Emergency Management Agency: Despite Receiving \$136 Million in Recovery Act Funds in June 2009, It Only Recently Began Awarding These Funds and Lacks Plans to Monitor Their Use*, Letter Report 2009-119.4 (Sacramento, Calif.: May 4, 2010). Findings and recommendations from this review are described on page CA-16 of this appendix in table 6.

Recovery Act requirements, including certifying that they comply with Davis-Bacon provisions, before providing Recovery Act funds to them to weatherize homes. In February 2010, the State Auditor raised concerns about CSD's delays in weatherizing homes and management of the funds.<sup>9</sup> Our prior work has also highlighted delays with the program. Since our last report, CSD reported that a total of 2,934 homes in California, as of March 31, 2010, had been weatherized with Recovery Act funds, or approximately 75 percent of the 3,912 homes targeted for the first quarter of the 2010 calendar year. We plan to continue to follow California's progress in using Recovery Act weatherization funds, including CSD's progress in ensuring service areas have providers in place to continue weatherizing homes and that prevailing wage rates and other Recovery Act requirements are instituted.

Lastly, for programs such as the WIA Dislocated Worker Program, concurrent spending timelines for regular and Recovery Act program funds have affected when recipients decided to use Recovery Act funds. Officials from the Employment Development Department (EDD), the state agency administering WIA funds, noted that as of December 31, 2009, about 59 percent of the Recovery Act WIA Dislocated Worker funds allocated to localities had been obligated (\$78 million of the total \$133 million allotted) and 23 percent of the funds (\$31 million) had been expended. These officials told us that some local Workforce Investment Boards (WIB) had yet to spend about 90 percent of their WIA Dislocated Worker Recovery Act funds, including Los Angeles (91 percent unspent). According to EDD officials, many local WIBs have been spending their regular program funding before Recovery Act funds or have been spending the funds concurrently without necessarily giving priority to Recovery Act funds. Regular WIA formula funds and WIA Recovery Act funds are both available for expenditure for the same time period—3 program years for the state and 2 program years for local areas. As of March 31, 2010, the two areas we visited, Los Angeles and San Diego, continued to obligate and spend Recovery Act funds. Los Angeles obligated 93 percent of its allocation (about \$12 million) and spent 19 percent (\$2.4 million); and San Diego obligated 75 percent (about \$6.7 million) and spent 31 percent (\$2.8

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<sup>9</sup>California State Auditor, Bureau of State Audits, *Department of Community Services and Development: Delays by Federal and State Agencies Have Stalled the Weatherization Program and Improvements Are Needed to Properly Administer Recovery Act Funds*, Letter Report 2009-119.2 (Sacramento, Calif.: Feb. 2, 2010). In CSD's 60-day update to the State Auditor, CSD reported that it had made considerable progress since the audit was conducted.

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million). Both expect to expend 100 percent of their WIA Recovery Act funds before the June 30, 2011 deadline.

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### While Budgetary Problems Persist at the State and Local Levels, Recovery Act Funds Have Helped Preserve Services

In fiscal year 2009-2010, California used Recovery Act funds to help balance the state budget and to continue to provide services that may have otherwise experienced large cuts.<sup>10</sup> As discussed in our prior reports, a portion of the state's Recovery Act funds—over \$8 billion—was used to help balance its fiscal year 2009-2010 budget, when the state faced a nearly \$60 billion budget gap. The fiscal budget relief provided by Recovery Act funds to the state primarily came from an increase in the Medicaid Federal Medical Assistance Percentage (FMAP) that freed up state funds and over \$5 billion in SFSF funds made available in part to help stabilize budgets by minimizing cuts in education and other government services. California's current long-term fiscal prospects remain of concern. In November 2009, the Legislative Analyst's Office (LAO) estimated the size of the 2009-2010 and 2010-2011 budget shortfall to be about \$21 billion.<sup>11</sup> According to state officials, they do not anticipate receiving the same level of budgetary relief as a result of Recovery Act funds in the 2010-2011 state general fund budget as it did for the current fiscal year.

Overall, officials we met with from four local governments—Los Angeles, Sacramento, San Diego, and San Francisco—reported that Recovery Act funds have helped to preserve services, but they still need to address budget deficits for the remainder of fiscal year 2010 and next fiscal year. Officials in the localities we visited told us that they continue to face budgetary problems due to declines in state revenue and other local revenue sources such as sales and gas taxes and other fees. For example, San Francisco officials told us that they recently closed a deficit of about \$53 million in fiscal year 2010, and face an estimated budget shortfall of approximately \$483 million in fiscal year 2011. Los Angeles officials also told us that they expect the dire budget situation—a deficit of \$220 million for the remainder of fiscal year 2010 and a projected deficit of \$485 million for fiscal year 2011—to continue if structural changes to the city's operations do not occur. Los Angeles officials noted that the city has outlined a 3-year plan to address the deficit, which includes sound fiscal management, a focus on core services such as public works and safety,

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<sup>10</sup>The California state government fiscal year is July 1 to June 30.

<sup>11</sup>Included in the estimated \$21 billion budget shortfall is an estimated \$6.3 billion general fund deficit at the end of 2009-2010.

and exploring public-private partnerships. (Fig. 2 highlights selected information about the four local governments.)

**Figure 2: Information about Los Angeles, Sacramento, San Diego, and San Francisco**

	Los Angeles	Sacramento	San Diego	San Francisco
 Sacramento				
Estimated population (2008):	3,833,995	1,386,469	1,279,329	808,976
Unemployment rate, March 2010 (percent):	13.5	13.1	11.0	10.3
Budget fiscal year 2010 (dollars in billions):	6.9	4.3	2.9	6.6
Locality type:	Metropolitan city	County	Metropolitan city	City and county

Sources: U.S. Census Bureau and U.S. Department of Labor (demographic information); City of Los Angeles, County of Sacramento, City of San Diego, and City and County of San Francisco (funding information); and Map Resources (map); and GAO.

Note: Population data are from 2008. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

Recovery Act grants have helped local governments maintain services despite budget cuts. For example, officials in two of the local governments we visited—Los Angeles and San Francisco—told us that CHRP funds helped them maintain law enforcement services.<sup>12</sup> In Los Angeles, police department officials told us that cuts were being made across-the-board to address the city’s budget deficit—public safety represents about 70 percent of the city’s budget, which includes police, fire, and animal control. These officials stated that the department was facing a budget deficit of about \$84 million with a hiring freeze for civilian personnel, and the receipt of approximately \$16 million in CHRP funds helped mitigate the difficult budget situation. In particular, CHRP funds helped Los Angeles to hire 50 new officers, which would not have been funded this fiscal year without Recovery Act funds. San Francisco was also awarded about \$16 million in CHRP funds to help maintain its law enforcement workforce by hiring 50 new officers to fill vacancies caused by retirements and general attrition. Officials from the San Francisco Police Department said that without Recovery Act funds their department would not have

<sup>12</sup>While Sacramento and San Diego applied for CHRP grants, neither locality was awarded a grant through DOJ’s competitive grant process.

been able to maintain the size of its workforce due to the local budget situation.

For all of the local governments we visited, officials reported that Recovery Act grants helped to fund existing programs. For example, San Diego officials reported that the city had been awarded about \$40 million in Recovery Act grants including funding to continue the city’s energy-efficiency improvement efforts. Table 5 shows the types of on-going programs funded by Recovery Act grants awarded to the four localities we visited.

**Table 5: Amount and Types of Recovery Act Grants Awarded to Selected Local Governments as of March 31, 2010**

Local government	Amount of Recovery Act grants awarded (dollars in millions)	Types of programs funded
Los Angeles	\$596	Anticrime programs, community development projects, energy-efficiency projects, homelessness and foreclosure relief, purchases of buses, and public housing rehabilitation
Sacramento	88	Law enforcement programs such as gang suppression and prevention of Internet crimes against children, energy-efficiency improvements, and airport security improvements
San Diego	40	Community development projects, homelessness prevention programs, energy-efficiency improvements, and law enforcement
San Francisco	437	Community development projects, workforce stabilization programs, improvements to local hospitals, energy-efficiency improvements, public works projects, and airport improvements

Source: GAO analysis of information from the City of Los Angeles, the County of Sacramento, the City of San Diego, and the City and County of San Francisco.

Note: Funding awards include both Recovery Act formula and competitive grants directly awarded to localities.

## Various State Entities Are Conducting Oversight Activities to Help Ensure Appropriate Use of Recovery Act Funds

As California gained more experience in implementing the Recovery Act during the past year, state oversight entities have taken actions to evaluate and update controls and guidance related to Recovery Act funds. For example, the Task Force prepared and issued more than 30 *Recovery Act Bulletins* to provide instructions and guidelines to state agencies receiving Recovery Act funds, on topics ranging from Recovery Act recipient reporting requirements to appropriate cash-management practices. The California Recovery Act Inspector General conducted several reviews aimed at determining if departments or local agencies properly accounted for and used Recovery Act funds in accordance with Recovery Act requirements and applicable laws and regulations. In addition, the Inspector General published an advisory on contractor monitoring, which

included suggested steps to ensure that contractors perform in accordance with contract terms and to reduce the potential of fraud. The Inspector General also coordinated seven fraud prevention and detection training events throughout the state for state and local agencies and the service-provider community, with presentations from federal agencies on measures to avoid problems and prevent fraud, waste, and abuse. Over 1,000 state and local agency staff attended training events, which were also available through a “Webinar.”

As of May 2010, the State Auditor published nine letters or reports on the results of early testing or preparedness reviews, or both, conducted on 32 Recovery Act programs at 14 state departments that are administering multiple Recovery Act programs. These audit reports resulted in numerous recommendations to state agencies aimed at improving oversight of Recovery Act funds. Table 6 provides a summary of several of the State Auditor’s findings related to Recovery Act programs that we have reviewed. Additionally, the State Auditor volunteered to participate in an OMB Single Audit Internal Control project. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project’s guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits.<sup>13</sup> Sixteen states volunteered for the project, including California, whose auditors issued their interim reports on internal control for selected major Recovery Act programs by December 31, 2009 and a corrective action plan to the appropriate federal agency by January 31, 2010.<sup>14</sup>

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<sup>13</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act.

<sup>14</sup>In addition to California, the following states volunteered to participate in the project: Alaska, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia.

**Table 6: State Auditor Reviews of Selected Recovery Act Programs**

Recovery Act program	Administering state agency	Selected State Auditor findings and recommendations
JAG	Cal EMA	<p>Cal EMA is moderately prepared to administer its JAG Recovery Act award.</p> <p>Cal EMA should take steps to promptly execute subgrant agreements.</p> <p>Cal EMA should also plan its monitoring activities to ensure it meets Recovery Act JAG program requirements.</p> <p>Cal EMA should develop procedures to ensure reporting requirements are met.</p>
Weatherization Assistance Program	CSD	<p>CSD needs to improve its controls over cash management for the program.</p> <p>CSD should develop and implement the necessary standards for performing weatherization activities and develop a plan for monitoring subrecipients.</p>
State Fiscal Stabilization Fund–Education Stabilization Funds	CDE	<p>CDE should implement adequate controls to ensure interest is appropriately remitted to the federal government.</p>

Source: GAO analysis of information provided by the California State Auditor.

California agency officials and internal auditors from state departments that manage public safety, workforce, and environmental programs, are engaged to various degrees in the oversight and auditing of Recovery Act funds. State agencies we met are using existing internal controls to monitor and oversee Recovery Act funds, but some also implemented new procedures specifically for Recovery Act–funded activities and projects. For instance, CDPH reported using existing monitoring activities for all SRF projects, which includes on-site inspections and reviewing reimbursement requests. In addition to CDPH’s normal protocols for overseeing SRF projects, CDPH officials told us that new processes are in place for Recovery Act–funded projects including establishing new staff positions utilizing different administrative classifications for financial reviews of contracts and claims, periodic reviews of subrecipients’ construction contracts, and additional staff added specifically to handle reporting and tracking for Recovery Act projects. Table 7 provides an overview of selected oversight and auditing activities of several of the agencies administering programs we reviewed.

**Table 7: Selected Oversight Activities by State Agencies**

State agency	Recovery Act program	Oversight activities
Cal EMA	JAG	<ul style="list-style-type: none"> <li>• Cal EMA plans to conduct extended-scope monitoring of approximately 300 of the nearly 1,500 active subrecipients of JAG state awards passed through the state annually to local agencies.</li> <li>• Cal EMA has developed a targeted compliance questionnaire and plans to distribute it to a representative sample of subrecipients receiving Recovery Act funds to help ensure compliance with Recovery Act requirements. When fully staffed, the Monitoring Division has the capacity to review up to 1,400 targeted compliance questionnaires annually.</li> </ul>
CDPH	Drinking Water SRF	<ul style="list-style-type: none"> <li>• CDPH is following existing monitoring activities for Recovery Act projects. These activities include obtaining and compiling subrecipient reports, on-site inspections, and reviewing reimbursements.</li> <li>• CDPH implemented new processes including Recovery Act site reviews in addition to normal project inspections to ensure Recovery Act requirements have been addressed, utilizing staff positions at different administrative classifications for financial review of contracts and claims, periodic reviews of subrecipients' construction contracts, and additional staff added specifically to handle reporting and tracking for Recovery Act projects.</li> </ul>
EDD	WIA Dislocated Worker Program	<ul style="list-style-type: none"> <li>• Each local Workforce Investment Board is visited annually and reviewed for fiscal and program compliance. Visits include case reviews and participant interviews.</li> <li>• At the end of April 2010, EDD completed monitoring reviews of 46 of the 49 Local Workforce Investment Areas, with the remaining 3 to be completed in June 2010.</li> <li>• EDD established separate ledger accounts and cost codes for Recovery Act funds to ensure proper tracking and accountability.</li> </ul>
WRCB	Clean Water SRF	<ul style="list-style-type: none"> <li>• WRCB is following existing oversight and internal control processes for Recovery Act SRF projects including: communicating regularly with subrecipients, reviewing reimbursement requests, and requiring subrecipients to conduct financial statement audits and certify that their projects operate correctly or meet performance targets.</li> <li>• WRCB has implemented new monitoring activities including enhanced project inspections using a Recovery Act checklist recently developed by EPA, periodic site visits at various milestones, and review of key documents such as facilities planning, design, and bid documents.</li> </ul>

Source: GAO analysis of information provided by Cal EMA, CDPH, EDD, and WRCB.

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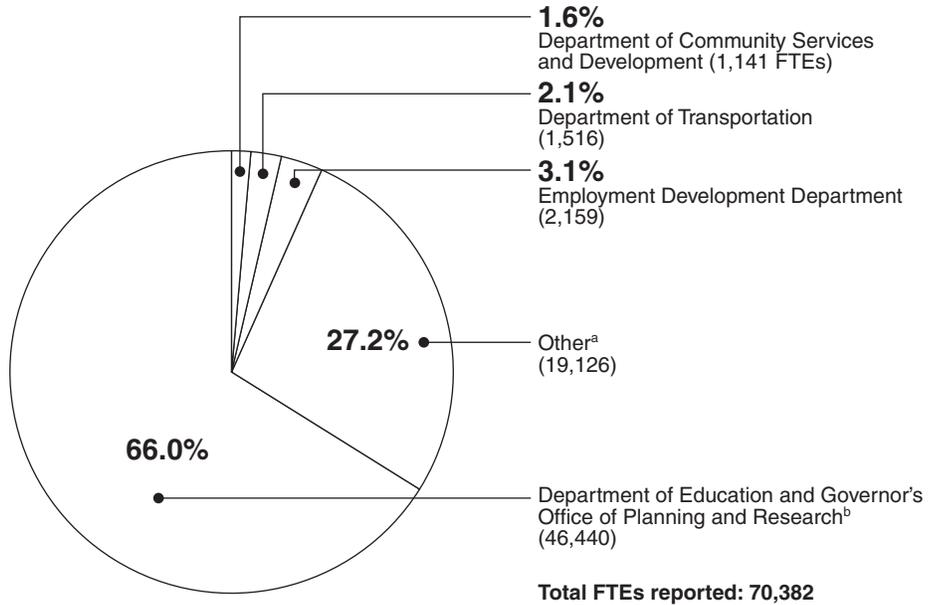
## California Reported over 70,000 Jobs for the Third Recipient Report, but Questions Remain about Education Job Estimates

According to Recovery.gov, as of April 30, 2010 California recipients reported funding 70,382 FTEs with Recovery Act funds during the third quarterly reporting period, which covers the period January 1, 2010, to March 31, 2010; however, problems identified with the reporting and review of the jobs data by CDE call into question the reliability of the data. Recipients are to report the total amount of Recovery Act funds received, the amount of funds expended or obligated to projects or activities, a detailed list of these projects or activities, and estimated job numbers, among other things for any quarter in which they receive Recovery Act funds directly from the federal government. The Task Force established a centralized reporting system for Recovery Act funds received through state agencies, while other recipients that receive Recovery Act funds directly from federal agencies report through the national database, FederalReporting.gov.<sup>15</sup> Figure 3 provides further details on the number of FTEs selected state departments reported. According to the Task Force, it performs data quality checks on information reported by state agencies every quarter, such as identifying reports in which FTEs were reported with no expenditures or instances in which expenditures divided by FTEs yielded unreasonable costs per FTE. The Task Force works with state agencies to correct any errors found by these data quality checks. During the most recent reporting period, the Task Force migrated the reporting tool it had been using to collect state agency data—the California ARRA Accountability Tool (CAAT)—to a new platform to better meet Recovery Act recipient reporting and other federal and state requirements. Task Force officials stated that the new platform allowed the state to collect additional information from recipients and helped reduce human entry errors with features, such as prepopulated pull-down menus and locks on data fields (e.g., D-U-N-S numbers). According to Task Force officials, the third reporting period, using the new platform, went more smoothly than prior periods.

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<sup>15</sup>Through the Task Force's reporting system, 35 California state agencies reported funding a total of over 53,000 FTEs during the third quarterly reporting period.

**Figure 3: FTEs Reported by California State Program Agencies as Recipients of Recovery Act Funding as of April 30, 2010**



Source: Recovery.gov.

Notes: Totals may not add to 100 percent due to rounding.

<sup>a</sup>Other includes other state agencies, such as the California Tax Credit Allocation Committee, CDPH, and WRCB, and recipients that received Recovery Act funding directly from federal agencies.

<sup>b</sup>Estimates for the Department of Education and the Governor's Office of Planning and Research were combined because the Office of Planning and Research acts as the pass-through agency for education funds under the SFSF.

Concerns remain about the number of education-related jobs being reported by CDE, in part, because some LEAs are underreporting vendor jobs. As we reported on March 5, 2010, seven LEAs we met with awarded contracts using Recovery Act funds. However, five of the LEAs either did not report or underreported vendor jobs associated with these contracts. For example, an official from one of these LEAs reported that, for the second quarterly report, the number of vendor jobs they reported increased from 12 to 79 when they recalculated their numbers after they learned that job estimates needed to be collected from all vendors awarded Recovery Act contracts.<sup>16</sup> According to LEAs we met with, they

<sup>16</sup>On March 5, 2010, we testified that some LEAs did not collect and report job estimates from vendors with payments of less than \$25,000 because they erroneously applied CDE's guidance on vendor identification to determine which vendor jobs to report.

received reporting guidance from CDE, but did not receive clear guidance on calculating and reporting vendor jobs funded by the Recovery Act. Although CDE has issued several letters to LEAs with reporting guidance—including stating that jobs counted should include jobs created or retained by other entities such as sub-awardees and vendors—and has posted these correspondences to its Web page, LEAs we met with since our last report continue to be confused by vendor reporting requirements. We met with one LEA that told us that it was not aware of the requirement to report vendor jobs and therefore did not report these jobs despite awarding Recovery Act contracts to vendors for an estimated \$3 million, many of which are for services. According to officials from the LEA, they never received specific guidance stating reporting vendor jobs was required, or any guidance describing how to gather the information or what criteria to use. Another LEA told us it did not report any jobs associated with certain IDEA Recovery Act–funded contracts because, according to CDE guidance, the contractors are considered subrecipients, not vendors, and therefore the LEA thought the jobs were not required to be reported. CDE officials stated that, while most of these contractors would be considered subrecipients rather than vendors, the jobs funded by them should be reported in either case.

CDE plans to issue additional guidance to LEAs on vendor jobs reporting. In a letter to the House of Representatives Committee on Oversight and Government Reform dated April 2, 2010, addressing our concern on inconsistency of vendor jobs reporting, among other issues, CDE noted that it will revise its guidance accordingly. CDE stated that it will provide clarifying guidance when it communicates with LEAs in May 2010 regarding the next reporting period. In particular, CDE plans to include language specifying that all vendor jobs must be reported, not just the jobs of vendors receiving more than \$25,000.<sup>17</sup> It is important for CDE, as the prime recipient of Recovery Act education funds, to review its existing guidance, provide detailed information to LEAs on vendor jobs reporting prior to the beginning of the next reporting cycle, and follow up with LEAs on the proper implementation of its guidance to help ensure California’s overall job estimates are accurate.

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<sup>17</sup>Under OMB guidance, prime recipients are required to generate estimates of job impact by directly collecting specific data from subrecipients and vendors on jobs resulting from a sub-award. To the maximum extent practicable, prime recipients are to collect information from all subrecipients and vendors in order to generate the most comprehensive and complete job impact numbers available. Job estimates regarding vendors are to be limited to direct job impacts and not include “indirect” or “induced” jobs.

Additionally, data reliability strategies used by CDE to review information submitted by LEAs did not always identify questionable LEA job estimates. According to CDE officials, they use a variety of data checks to monitor the accuracy of the Recovery Act information submitted by LEAs. These strategies included checking LEA jobs data for reasonableness. For example, CDE reported that it compared the number of FTEs reported by an LEA to the amount of the LEA's grant award, using \$50,000 as a reasonable amount to fund 1 FTE. According to CDE, if questionable data were identified, CDE called LEAs to follow up. However, when we reviewed data reported by several large LEAs, we found that one LEA—that received over \$35 million in Recovery Act funds and expended over \$15 million by the end of the third reporting period—reported no teacher or administrative jobs. According to officials from this LEA, although they used Recovery Act funds for teacher and administrative jobs, they did not report these jobs because they believed the state would have provided funding for those jobs if the Recovery Act had not. Therefore, they concluded that no jobs were created or retained, which is not consistent with OMB's December 18, 2009 guidance that directs recipients to report the total number of jobs that were funded in the quarter by the Recovery Act.<sup>18</sup> Subsequent to our meeting with the LEA, CDE officials contacted the LEA to provide them with guidance. According to CDE officials, they did not instruct the LEA to correct its jobs estimate at that time, because the third-quarter reporting system had closed.<sup>19</sup> CDE advised the LEA to use the correct jobs methodology for the fourth round of reporting and worked with the LEA to correct the round three jobs data. However until CDE makes appropriate changes to its data-reliability process, it will not be in a position to identify this and other types of job estimate errors in future reporting periods. One approach CDE could pursue would be to review the reporting data and methodologies of the 10 largest LEAs, which would account for a large portion of Recovery Act funding, and could help CDE uncover systemic reporting problems. According to CDE, it will continue to work on improving its review techniques, including applying a data check to LEA vendor jobs and placing more focus on data checks of its 10 largest LEAs.

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<sup>18</sup>OMB, Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non Reporting Recipients, and Reporting of Job Estimates* (Washington, D.C.: Dec. 18, 2009).

<sup>19</sup>Although the reporting deadline had passed, the nationwide data system, FederalReporting.gov, was reopened for a period for corrections—for the third reporting cycle the period is from May 3 through June 14, 2010.

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Finally, during the third reporting cycle, CDE updated its second quarterly report during the corrections period that ended on March 15, 2010, by instructing LEAs to use OMB revised guidance on calculating FTEs for job estimates. As we reported in March 2010, CDE's job estimates for the second quarter recipient-reporting cycle had not been calculated using OMB's December 18, 2009, guidance. After the correction period, CDE's FTE estimates for the second reporting period increased from 49,887 to 50,973. Task Force officials did not report any challenges with CDE's ability to obtain and update the job estimates. In addition to the one LEA noted above, we met with four other LEAs to discuss their job calculation process and none of them reported difficulties understanding and implementing OMB's new guidance to revise their second reporting period estimates for nonvendor jobs.

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### State Comments on This Summary

We provided the Governor of California with a draft of this appendix on May 7, 2010.

In general, California state officials agreed with our draft and provided some clarifying information, which we incorporated, as appropriate.

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### GAO Contacts

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### Staff Acknowledgments

In addition to the contact named above, Emily Eischen, Guillermo Gonzalez, Richard Griswold, Susan Lawless, Gail Luna, Heather MacLeod, Emmy Rhine, Eddie Uyekawa, and Lacy Vong made major contributions to this report.

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# Appendix III: Colorado

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## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of Colorado's spending under the American Recovery and Reinvestment Act of 2009 (Recovery Act).<sup>1</sup> The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

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## What We Did

Our work in Colorado included reviewing the state's use of Recovery Act funds and its experience reporting Recovery Act expenditures and results to federal agencies under Office of Management and Budget (OMB) guidance. We continued our review of several programs that we have been reviewing on an ongoing basis, including the State Fiscal Stabilization Fund (SFSF); Highway Infrastructure Investment; Individuals with Disabilities Education Act, as amended, (IDEA) Part B; and Elementary and Secondary Education Act of 1965, as amended, (ESEA) Title I, Part A. We also added two new programs to our review—the Clean Water and Drinking Water State Revolving Funds (SRF)—because the state received a sizable amount of funding for these programs and SRF projects have already been selected and are under construction. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

As a result of past work determining that the state's system of internal controls is largely decentralized, we continued our efforts to understand state agencies' controls over Recovery Act funds. We reviewed controls over the IDEA Part B, and ESEA Title I, Part A programs, which are managed by the Colorado Department of Education (CDE); the Clean Water and Drinking Water SRFs, which are managed jointly by the Colorado Department of Public Health and Environment (CDPHE), the Colorado Water Resources and Power Development Authority (Authority), and the Department of Local Affairs; and the SFSF funds, which are managed by the Office of the Governor. We also asked state and local accountability organizations about their efforts to audit and review Recovery Act programs in the state.

In addition to reviewing state programs, interviewing state officials, and examining documents for these programs, we continued our visits to local governments to better understand their use of and controls over Recovery Act funds. All regions of Colorado are experiencing economic stress. We

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

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chose to visit two local governments, in part because of these localities' size, location, and unemployment rates. Specifically, we selected the city of Fort Collins because it has an unemployment rate lower than the state's average of 8.4 percent and it is a small city in north central Colorado. We also selected Grand Junction, a small city in western Colorado, because it has an unemployment rate of 10.3 percent, higher than the state average.

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## What We Found

**State Fiscal Stabilization Fund.** Colorado has targeted most of the \$760.2 million in SFSF funds it was allocated to programs that have had significant reductions in state funding, in particular, higher education and corrections. To date, most of the funds have been used to pay for staff at the state's institutions of higher education (IHE) and its corrections institutions. To receive the full amount of SFSF funds, the state was required to meet a set of education reform assurances and to gather certain data to show progress toward these reform areas. Because the state has identified problems with the data collection systems that CDE will use to gather the data, it may not have adequate systems in place to efficiently gather and report this data. The state's plan to update its data collection systems and improve their efficiency hinges in part on the state receiving an additional \$400,000 in federal or private funds.

**Highway Infrastructure Investment.** As of the Recovery Act deadline of March 2, 2010, the Federal Highway Administration (FHWA) had obligated the state's apportionment in highway infrastructure funds. Colorado was apportioned \$403.9 million of Recovery Act highway funds, of which \$18.6 million was transferred from FHWA to the Federal Transit Administration (FTA) for transit projects in the state. As of May 3, 2010, the state had been reimbursed \$127.7 million for work on its projects. The state has 102 projects for which bids have been advertised, and out of these projects, 92 contracts had been awarded as of March 31, 2010. The state has used the funds to replace seven bridges; construct or reconstruct about 90 miles of road; and resurface about 200 miles of highway.

**Education programs.** Spending of IDEA Part B, and ESEA Title I, Part A funds by local educational agencies (LEA) in Colorado has increased since we last reported in December 2009.<sup>2</sup> As of April 1, 2010, Colorado had distributed 22 percent (more than \$32.7 million) of IDEA Part B program

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<sup>2</sup>GAO, *Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Colorado)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

funds and 20 percent (\$22 million) of ESEA Title I, Part A funds to LEAs, as compared with 3 percent and 0.25 percent, respectively, distributed as of November 13, 2009. As they have been spending the Recovery Act funds, the LEAs are paying for teachers and training, among other costs.

**Clean Water and Drinking Water State Revolving Funds.** Colorado is using \$32.3 million to fund drinking water projects and another \$30.1 million to fund clean water projects throughout the state. A total of 34 water projects—22 drinking water projects and 12 clean water projects—are expected to improve water quality and assist multiple disadvantaged communities in the state. Eighteen of these projects are considered “green” projects and are expected to lead to increased water and energy efficiencies, largely through replacing leaky distribution pipelines and installing more efficient drives to control water processing at wastewater treatment plants. Colorado’s SRF programs met the Recovery Act deadline of having all projects under contract by February 17, 2010, and exceeded it by having all projects under construction by that date as well.

**State and local use of Recovery Act funds.** The state has used Recovery Act funds to help balance its general fund budget after cutting \$1.5 billion in expenditures in fiscal year 2010. As the funds run out in fiscal year 2011, however, state officials said they face challenges in managing the decline in funding. The two local governments we visited, Fort Collins and Grand Junction, experienced different degrees of assistance from the Recovery Act. Fort Collins received \$28.6 million in grants, which is primarily allowing it to continue pursuing its energy efficiency goals. Grand Junction received \$1.9 million, although it applied for \$39.3 million in grants. Grand Junction officials said that they thought they received limited funding because grant applications requested unemployment data for 2007 to 2008, a period when the city’s unemployment rate was significantly lower than it was when it applied for the grants in 2009.

**Recipient reporting.** Colorado’s Recovery Act recipients reported roughly 10,300 jobs, by full-time equivalent (FTE) positions, paid for with Recovery Act funds during January through March 2010. The state reports centrally for state agencies, but not for local, private, or other entities in the state.<sup>3</sup> While we noted some inconsistencies in the FTE figures for

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<sup>3</sup>According to the State Controller’s office, local governments, authorities, and special purpose authorities are political subdivisions that are legally distinct from the state.

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some of the agencies we reviewed, state officials said that they have taken steps to improve their data in subsequent rounds. However, officials are concerned that continued changes to the recipient reporting process—specifically, limiting the period for state review of data—will potentially decrease the state’s ability to ensure the quality of the data it reports.

**Accountability.** In addition to our work reviewing Recovery Act funds, the accountability community in Colorado has identified weaknesses in internal controls over some Recovery Act programs in the state. In particular, the State Auditor recently identified significant internal control deficiencies at the Colorado Department of Human Services’ Colorado Child Care Assistance Program.<sup>4</sup> Specifically, the audit found errors on expenditure statements because the program lacked adequate written procedures and supervisory review, and did not provide adequate training. The department agreed with the results and has taken steps to correct the deficiencies.

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## Colorado Is Using State Fiscal Stabilization Fund for Higher Education and Corrections Staff, but May Not Have Adequate Systems to Efficiently Report Education Reform Data

The Recovery Act created the SFSF in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education, public safety, and other essential government services. In Colorado, the state is using all of its education stabilization funds for IHEs and most of its government services funds for the Department of Corrections, both of which have seen significant reductions in state funding. To more effectively manage and control the SFSF funds, the Office of the Governor is developing internal controls, including tracking these funds separately. CDE’s existing data system may not be adequate, however, to efficiently gather and report data on SFSF education reform measures.

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<sup>4</sup>Office of the State Auditor, *American Recovery and Reinvestment Act of 2009 Internal Control Pilot Project, State of Colorado, Financial Audit, Fiscal Year Ended June 30, 2009* (Denver, Colorado: Nov. 20, 2009).

**Colorado Is Using State Fiscal Stabilization Fund Primarily for Higher Education and Corrections Staff**

Colorado has targeted the SFSF funds it was allocated primarily to programs that have had significant reductions in state funding, in particular higher education and corrections. The state was allocated a total of \$760.2 million in SFSF funds, \$621.9 million of which are education stabilization funds and \$138.3 million of which are government services funds. As we have previously reported, Colorado is disbursing all of the SFSF education stabilization funds it is receiving to its IHEs. It now plans to use the majority of its SFSF government services funds for the Department of Corrections.

As of April 30, 2010, Colorado planned to disburse the \$621.9 million in SFSF education stabilization funds to its IHEs across 3 fiscal years: \$150.7 million in fiscal year 2009, \$382.0 million in fiscal year 2010, and the remaining \$89.2 million in fiscal year 2011. The funds are largely being used to pay for faculty at the state’s IHEs. Since we reported in December 2009, the state has learned of additional reductions in fiscal year 2010 projected revenues and has had to take further steps to decrease the fiscal year 2010 budget for higher education. This increased the share of SFSF funds it had planned to disburse in fiscal year 2010 by about \$5 million, from \$377 million to the current planned amount, \$382 million.

Table 1 shows the planned uses of the \$138.3 million in SFSF government services funds allocated to the state. As of April 30, 2010, Colorado officials had allocated \$113.6 million of the SFSF government services funds to the Department of Corrections: \$24.6 million in fiscal year 2009 and \$89.0 million in fiscal year 2010. These funds are largely being used to fund a portion of security and housing staff responsible for supervising and managing offenders at the state’s 21 correctional institutions.

**Table 1: Colorado’s Planned Uses of SFSF Government Services Funds**

(Dollars in millions)	
<b>Program</b>	<b>Allocation</b>
Public safety (Department of Corrections)	\$113.6
Elementary and secondary education	8.1
Life safety and economic capital construction <sup>a</sup>	6.7
Recovery Act oversight administrative costs	6.3
Other	3.6
<b>Total</b>	<b>\$138.3</b>

Source: GAO analysis of state data.

<sup>a</sup>Life safety construction is done to address urgent and critical health and safety issues.

With the remaining government services funds, Colorado plans to fund particular projects to repair state facilities with urgent or critical health and safety issues, fund economic development in a rural part of the state, and help the state fund education reform measures. While state officials also set aside \$6.3 million of government services funds to cover expenses related to administering the Recovery Act, these funds might be freed up for other uses if (1) the state is able to fully, or even partially, recover administrative costs under its supplemental statewide cost allocation plan for Recovery Act costs and (2) actual administrative costs do not exceed projections.<sup>5</sup> Colorado has had difficulty recovering these costs from some federal agencies, including the Department of Health and Human Services and the Department of Education, in part because of federal limits on the availability of funds for administrative purposes. As of April 30, 2010, according to state officials, Colorado has received approximately \$2.2 million of the \$4.7 million it has calculated as its statewide indirect costs over 3 years.<sup>6</sup> State officials also said that ultimately the state will come up short on recouping administrative costs, and that having to use government services funds to make up the difference will reduce the Governor's opportunities to use them for other program needs, undermining some of their impact.

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**Governor's Office Is Developing Accountability Controls over SFSF Funds, but State May Not Have Adequate Systems to Efficiently Report Education Reform Data**

The Governor's office is responsible for managing and controlling SFSF, which was a new program without existing controls at the time the program was created. While the Governor's office staff have subsequently developed new controls over these funds, including tracking these funds separately and maintaining separation of duties over funds, they have not yet implemented a monitoring plan for the entities receiving the \$476 million of education stabilization funds and government services funds that had been expended as of March 31, 2010. According to state officials, most of the funds have gone to uses with well-established financial

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<sup>5</sup>Under a May 11, 2009, memorandum from OMB, states could identify the costs of administering Recovery Act funds and recover these costs from Recovery Act funds. See OMB, OMB Memorandum M-09-18, *Payments to State Grantees for Administrative Costs of Recovery Act Activities* (Washington, D.C.: May 11, 2009). Colorado has identified these estimated costs for its centralized offices, including the State Procurement Office, the Office of the State Controller, and the Office of State Planning and Budgeting.

<sup>6</sup>The state's supplemental statewide indirect cost allocation plan estimated that the state would need \$6.3 million over 3 years. This includes \$4.7 million in statewide indirect costs and \$1.6 million to pay for direct billed services such as audits by the Office of the State Auditor.

reporting processes (paying for staff at IHEs and the Department of Corrections). The Governor's office submitted its proposed monitoring plan for these funds to Education in the first week of March 2010. The officials said that although Education had notified the states in August 2009 that they would need to submit monitoring plans for review, Education did not provide guidance on how to develop the monitoring plans until February 2010. According to state officials, the guidance would have been more useful if it had been more specific and had been issued earlier. Given that, as of April 30, 2010, Colorado had not received feedback on its plan, state officials said that they were moving ahead with implementing the plan.

As a condition of accepting SFSF funds, Colorado was required to meet four education reform assurances and has until September 2011 to begin reporting data that shows progress toward the assurances.<sup>7</sup> To measure performance against the four assurances, Education created a set of data points, referred to as indicators and descriptors, which the recipients of SFSF funds are required to submit. CDE is responsible for collecting and reporting the SFSF indicators and descriptors required by Education, even though the LEAs overseen by CDE did not receive SFSF funds. Colorado developed a plan describing its ability to collect and publicly report specific indicators and descriptors. For the 11 indicators and descriptors the state currently does not collect, the plan includes details on how it will gather the information it needs in order to fulfill its commitments.

The efficiency of the state's data collection plan hinges in part on the state receiving additional federal funding. A 2007 review of CDE's data collection and reporting system highlighted problems that could affect the efficiency of the state's collection and reporting of SFSF data.<sup>8</sup> The review revealed that CDE's data collection process, consisting of a set of automated systems, is fragmented, contains redundancies across data collection efforts, and does not involve the stakeholders. While the reviewers said that the data collection systems are working as designed and being maintained as well as could be expected given the resources available, CDE officials said that the process will not serve the state's

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<sup>7</sup>These assurances are (1) achieving equity in teacher distribution, (2) improving the collection and use of data, (3) developing standards and assessments, and (4) supporting struggling schools.

<sup>8</sup>NorthHighland, *Data Infrastructure Review*, a Report Prepared for the Colorado Department of Education (November 30, 2007).

future collection and reporting needs. Without the infusion of new funds, CDE officials said they will continue to use the current system for the department's data collection efforts, despite recognizing the shortcomings of the system. As the current process is not as efficient and effective as it could be, it will take longer to collect the data, and further, according to a CDE official, the quality of the reporting outputs may suffer as a result of no new monies. With additional funding, the development of a new data collection and reporting system could, among other things, provide the framework for exchanging data between separate systems that ensure data quality, with data quality checks occurring at both the local and state levels, according to the 2007 data review report.

According to CDE officials, they are planning to develop a new data collection and reporting system using a portion of Race to the Top funds or State Longitudinal Data System grants, but the likelihood of such funding is uncertain because these are competitive grants. Without this funding, the state may require additional investments to meet its planned schedules and the September 2011 deadline. CDE estimated it will cost approximately \$1.3 million to collect data and report on two of the indicators: developing an educator identification system that will link student data to teachers and providing teacher impact reports on student achievement on reading/language arts and mathematics assessments. According to CDE officials, the state already has \$900,000 of the total cost on hand. However, the remaining funding is anticipated to come from either a State Longitudinal Data System grant or a Race to the Top grant, both competitive grants. In March 2010, the state was notified that it was not selected as a first-round recipient for Race to the Top funds. CDE officials said the state is planning on reapplying for round two of Race to the Top in June, and is currently awaiting word on approval of the State Longitudinal Data System grant. According to officials, if the federal funding does not materialize, the state would likely turn to private sources to make up the gap, a course of action that may be difficult in the current economic climate. Whether or not the state receives federal funding, it is important that the state's data systems be integrated and capable of efficiently and effectively providing useful data.

## Colorado Is Using Highway Infrastructure Investment Funds to Improve Roads and Bridges

Colorado was apportioned more than \$403.9 million of Recovery Act highway infrastructure investment funds and is using those funds for various projects throughout the state, including highway resurfacing, construction and reconstruction, and bridge replacements. The federal government obligated the state’s apportionment by the 1-year deadline, March 2, 2010.<sup>9</sup> Between March 2 and April 26, 2010, FHWA deobligated \$5.5 million of these funds as the state continued to award contracts at a lower price than the state’s cost estimate. As of May 3, 2010, FHWA had reimbursed the state almost \$127.7 million. The state has 102 projects for which bids have been advertised, and out of these projects, 92 contracts had been awarded as of March 31, 2010.<sup>10</sup> Table 2 shows the status of Recovery Act efforts by the Colorado Department of Transportation (CDOT).

**Table 2: Status of CDOT’s Use of Recovery Act Funds for Highway Infrastructure Projects as of March 31, 2010**

Planned	Funded	Advertised for bid	Awarded contracts	Construction under way	Completed
102	102	102	92	50	18

Source: GAO analysis of CDOT data.

According to Colorado highway officials, the Recovery Act has and is expected to result in specific highway infrastructure improvements, several of which are readily measurable and others that are less easy to quantify. While the Recovery Act funds were a much-needed supplement to the state’s 2009 construction program and stimulated its overall construction program (increasing its construction budget from about \$306 million to more than \$691 million), officials said the funds did not, for the most part, enable CDOT to address underfunded programs or systems that are experiencing deteriorating infrastructure. CDOT officials said they use a statewide measure to assess the quality of roads and typically do not connect individual projects or funding sources to long term system-wide metrics. For this reason, they said that they do not typically collect project-specific data on performance, but were able to identify certain

<sup>9</sup>This includes obligations associated with \$18.6 million of apportioned funds that were transferred from FHWA to FTA for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA. According to FTA officials, the \$18.6 million has been obligated.

<sup>10</sup>CDOT received approval for \$610,000 in additional funds for three on-the-job training projects.

metrics that could be tracked against Recovery Act funded projects within the existing system or with modifications to its existing software. As of April 30, 2010, CDOT officials said the Recovery Act partially or fully funded highway projects that constructed or reconstructed about 90 miles of road, resurfaced about 200 miles of highway, and replaced seven bridges that were rated in poor or fair condition. CDOT officials explained that it would be difficult to identify system-wide benefits of Recovery Act funding, but estimated that about 2 percent of the state's roads were improved (measured by centerline miles) and about 0.16 percent of bridges (measured by deck area) repaired to good or fair condition.

Furthermore, in Colorado, CDOT has realized \$45.9 million in savings, including \$39 million resulting from lower than anticipated contract costs. Contract award cost savings generally resulted from construction contracts being awarded for amounts less than the engineers' estimates that were used to obligate funds, while the remaining savings were the result of other project related savings. According to Colorado officials, Recovery Act funding is currently the largest source of money for heavy highway construction in the state and 48 percent of the bids for Recovery Act projects were more than 10 percent lower than the state engineers' estimates. They said that because of the state of the economy, Colorado is seeing a larger number of contractors submitting bids for these projects, and as a result of this increased competition, bids are coming in lower than anticipated. This situation has resulted in CDOT being able to award contracts at costs lower than the engineers' estimates. CDOT applied the total savings, including the contract award savings, to 23 projects, including existing and new projects. To increase transparency of information related to how project savings are used, OMB recently issued guidance instructing agencies to report on their Web sites how those funds are used. Although they had not yet done so, CDOT officials said they could easily provide such information on their Web site, an action we encourage.

Colorado's Governor recently certified a new maintenance-of-effort amount—totaling \$994.6 million—a large increase from the original certification of \$132.8 million.<sup>11</sup> The Recovery Act required that the governor of each state certify that the state will maintain the level of spending for the types of transportation projects funded by the Recovery

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<sup>11</sup>The maintenance-of-effort certification is designed to prevent states from substituting federal funds for state funds.

Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state was required to identify the amount of state funds planned to be expended on transportation infrastructure projects during the period of February 17, 2009, through September 30, 2010. States will be prohibited from participating in the redistribution of federal aid highway obligation authority that will occur after August 1, 2011, if they are not able to maintain the certified level of effort.<sup>12</sup> According to CDOT officials, they initially used projects planned for February 2009 through September 2010 to calculate the amount of state funds, less any debt service payments, for their first maintenance-of-effort certification. However, FHWA determined that the state's maintenance-of-effort calculation had to include a broader range of planned expenditures than originally included. Specifically, FHWA included expenditures for local projects and expenditures on projects under contract in the new certification, requiring CDOT to recalculate its certification using expenditures for all projects under way during the February 2009 to September 2010 period. According to CDOT officials, the state has reported expenditures of \$669.4 million as of March 31, 2010, toward its certification amount of \$994.6 million. While CDOT has posted copies of its initial and revised certification letters on its Web site, it has not explained the significance of the certifications or provided an explanation for the substantial increase in the newly certified amount. Although FHWA does not require states to provide an explanation of certification changes, given the large increase in the amount and complexity of the process, a narrative description of the process and certification calculations could be included on the state and CDOT Web sites to better inform the public and provide greater transparency of the state's efforts to meet Recovery Act requirements. CDOT officials said that providing this information on their Web site would not be difficult.

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<sup>12</sup>As part of the federal aid highway program, FHWA assesses the ability of each state to have its apportioned funds obligated by the end of the federal fiscal year (September 30) and adjusts the limitation on obligations for federal aid highway and highway safety construction programs by reducing for some states the available authority to obligate funds and increasing the authority of other states.

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## Education Spending Has Increased as LEAs Pay for Teachers and Training

The Recovery Act provided supplemental funding for education programs authorized under IDEA Part B, a major federal program that supports early intervention and special education for children and youth with disabilities, and under ESEA Title I, Part A, which provides funding to help educate disadvantaged youth. Spending for the IDEA Part B program and the ESEA Title I, Part A program has increased since we reported in December 2009. As of April 1, 2010, according to officials, CDE had distributed to LEAs more than \$32.7 million (22 percent) for IDEA Part B, and \$22 million for ESEA Title I, Part A (20 percent).<sup>13</sup> Most of these amounts were used to reimburse activities in fiscal year 2010, with just over \$5 million used for activities in fiscal year 2009.

Colorado LEAs are generally using IDEA Part B, and ESEA Title I, Part A funds to hire staff, upgrade technology, and provide professional development opportunities for teachers, according to officials. For example, the Jefferson County School District plans to use its IDEA Part B funding to enhance professional development of K-12 special education staff by providing access to reading resources that support systematic, explicit, research-based instruction for students identified as needing special education services. The schools in the district will continue to increase the instructional intervention opportunities for these special needs students based on assessed needs and progress. In another example, the Adams 12 Five Star School District is using its ESEA Title I, Part A funds to put a full-time “technology integration specialist” in each Title I school to help coach teachers on how to enhance instruction using technology to improve instruction and interventions in early literacy development.

CDE officials stated the agency has a number of internal controls in place to manage funding received for IDEA Part B, and ESEA Title I, Part A under the existing programs and has put safeguards in place specifically addressing Recovery Act funds. In addition to its existing program controls, CDE issued supplemental guidance on the separate application process for Recovery Act funds, approvable types of projects, waivers from Recovery Act requirements, and reporting requirements under the

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<sup>13</sup>In Colorado, special education programs are organized into 57 administrative units, which, according to Colorado officials, are considered LEAs for the purposes of IDEA. After closing one facility in December 2009, Colorado also has 4 state-operated programs that are considered LEAs under IDEA, including 1 mental health institute, 2 correctional facilities, and 1 school for the deaf and blind. In total, Colorado has 61 LEAs, including 57 administrative units and 4 state-operated programs.

Recovery Act.<sup>14</sup> For example, CDE summarized federal guidance to assist LEAs as they developed their applications for the IDEA Part B and ESEA Title I, Part A programs separately from their applications for funds under the normal programs. In this summary, the state informed the LEAs that they should consider the extent to which their proposed use of Recovery Act funds would address five areas, including, for example, improving results for students in poverty, increasing educators' long-term capacity to improve results, accelerating reform and school improvement plans, and fostering continuous improvement through measurement of results. Further, the guidance explicitly directed LEAs to use the funds in ways that avoided creating recurring costs that they were unprepared to assume after the Recovery Act funds run out.

CDE used existing controls to approve Recovery Act funding for IDEA Part B, and ESEA Title I, Part A. First, CDE reviewed Recovery Act IDEA Part B funds separately from non-Recovery Act program funds, but officials stated that they reviewed applications for Recovery Act and non-Recovery Act ESEA Title I, Part A funds together because the programs are closely tied. Second, CDE required that its officials substantially approve LEA applications before LEAs could obligate funds and finally approve applications before LEAs could request and receive reimbursements. Third, CDE required that narratives in the applications must include, among other things, program objectives, activities, and evaluation plans. For example, as part of the IDEA Part B and ESEA Title I, Part A applications, LEAs were asked to specifically address the five areas in CDE's guidance noted above, as required by Education. Finally, CDE required each application to contain detailed budget information that the staff can then use to compare with expenditure requests during the year. For example, the ESEA Title I, Part A applications included narrative to describe educational programs, evaluation plans, professional development, and parental involvement, as well as related budgets for each of these areas.

Further, CDE officials stated they plan to use existing controls during the review of Recovery Act expenditures. Once an LEA's application is approved, that LEA determines when it uses Recovery Act funds and when it requests reimbursement from the state. Controls include annual financial reviews for ESEA Title I, Part A funds and end-of-year reviews

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<sup>14</sup>The state used a consolidated application for ESEA funds that included a separate section for ESEA Title I, Part A funds under the Recovery Act.

for IDEA Part B funds, both of which involve the staff comparing actual expenditures with amounts in the approved budgets in the LEA applications. According to officials, expenditures for both programs are tracked separately for Recovery Act and non-Recovery Act efforts. CDE had not completed its 2009 annual financial reviews for the 6 LEAs that expended Recovery Act funds for the ESEA Title I, Part A program in that year, nor had it completed the end-of-year reviews for the 11 LEAs that spent Recovery Act IDEA Part B funds in fiscal year 2009. CDE officials said that they usually perform their reviews several months after the end of the school year but have not completed the 2009 reviews because of the increased workload associated with reviewing, approving, and monitoring Recovery Act applications and budgets. Officials said that their review of the LEA applications for fiscal year 2010 provides assurance that Recovery Act funds will be spent appropriately; if the applications do not contain such assurances, officials said that they can reject payment for inappropriate expenditures.

CDE officials also stated that controls include monitoring site visits, end-of-year performance reporting by LEAs that feed into the overall evaluation of programs, reporting on school improvements, and using results from Single Audit Act reports for the monitoring program.<sup>15</sup> CDE officials conduct both desk reviews, which can consist of comparing applications, budgets, and expenditures against supporting documentation submitted by LEAs, and site visits to monitor IDEA Part B, and ESEA Title I, Part A programs. A site visit involves officials reviewing documentation and interviewing officials at an LEA. Specifically, CDE officials said that they schedule one site visit for each LEA receiving ESEA Title I, Part A funds during a 5-year period. On the other hand, CDE staff conduct site visits for LEAs receiving IDEA Part B funds as issues are identified on an as-needed basis.

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<sup>15</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

Although we did not review CDE's internal controls over its own use of Recovery Act funds, a February 2010 audit by Education's Office of Inspector General raised concerns about the appropriateness of CDE's methods for charging costs.<sup>16</sup> Specifically, the report found that CDE based employees' time charges to federal education grants on predetermined allocations of time rather than on actual time spent on the programs, which does not fully comply with OMB guidance. The Inspector General reported that as a result, it was unable to determine whether nearly \$24 million in personnel costs charged to Education grants for two fiscal years were allowable. CDE generally agreed with the report's findings and recommendations and has taken steps to address them. In particular, the state has, as of March 2010, implemented a new system for allocating and reporting time and effort charges. In addition, officials said they have reconciled and verified all but \$600,000 of the \$24 million in personnel costs questioned by the Inspector General.

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## Colorado Is Using Clean Water and Drinking Water State Revolving Funds to Help Disadvantaged Communities and Improve Water Quality across the State

The Recovery Act appropriated \$6 billion in capitalization grants for Clean Water and Drinking Water SRFs—\$4 billion for clean water and \$2 billion for drinking water nationwide. This represents a significant increase over the regular annual appropriations for SRF programs—referred to as the base programs. The Environmental Protection Agency (EPA) distributed more than \$65 million to Colorado to make loans and grants to local governments for eligible wastewater and drinking water infrastructure projects and “nonpoint source” pollution projects intended to protect or improve water quality.<sup>17</sup> This represents a threefold increase over the approximately \$20 million in funding the state received for the base programs for fiscal year 2009. In addition to providing increased funds, the Recovery Act included additional requirements for states, including prioritizing funds for projects that are ready to proceed to construction within 12 months of enactment of the act (by February 17, 2010). The Recovery Act also required each state to use at least 50 percent of its capitalization grants to provide additional subsidization to eligible

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<sup>16</sup>U.S. Department of Education Office of Inspector General, *Colorado Department of Education's Use of Federal Funds for State Employee Personnel Costs*, ED-OIG/A09J0004 (Sacramento, California: Feb. 26, 2010).

<sup>17</sup>Of the \$65 million it received, the state set aside 4 percent of the Clean Water and Drinking Water SRFs for administrative expenses (\$2,627,988) and 2 percent of the Drinking Water SRF (\$687,040) for grants to small, low-income communities to assist with the costs of planning and design and for pilot projects associated with removal of radionuclides from drinking water.

recipients in the form of principal forgiveness, negative interest loans, or grants. Furthermore, states were required to reserve at least 20 percent of their capitalization grants to fund “green” projects—green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities—to the extent there were sufficient and eligible project applications.

Colorado’s SRF programs met the Recovery Act deadline of having all projects under contract by February 17, 2010, and exceeded it by having all projects under construction by that date as well.<sup>18</sup> In fact, Colorado set early deadlines for localities—it required them to have all projects under contract by September 30, 2009.<sup>19</sup> The state is using \$32.3 million to fund 22 drinking water projects and \$30.1 million to fund 12 clean water projects. One effect of implementing an aggressive deadline was that Colorado had time to reallocate excess funds that approved projects did not or could not use. In particular, one city’s charter limited the amount of debt it could take on and the city had to turn back almost \$6 million in approved loans. Colorado reallocated these funds to 4 projects, and as a result, increased its number of funded drinking water projects from 19 to 22 and increased the funding of 1 of its clean water projects. As of April 30, 2010, Colorado SRF officials stated that 2 projects are complete: the drinking water project at Blanca that installed new water meters and the Bayfield clean water project that consolidated two wastewater treatment facilities. They expect most of the remaining projects will be completed by December 2010.

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### Colorado Is Using Funds to Help Disadvantaged Communities and Improve Water Quality

Recovery Act SRF funds are helping disadvantaged Colorado communities undertake essential capital improvements that they could not otherwise afford while maintaining current user rates. Of the total Clean Water and Drinking Water SRF projects, 15 projects received no-interest loans, while 25 projects received almost \$33 million in principal forgiveness, which the state capped at \$2 million per subrecipient, primarily to allow for more

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<sup>18</sup>Officials noted that in May 2010, the Committee on Transportation and Infrastructure, House of Representatives, sent a letter to the state commending the fact that the state ranks first out of all the states, based on an analysis of the percentage of clean water Recovery Act funds put out to bid, under contract, and underway.

<sup>19</sup>According to SRF officials, their timeline allowed for reasonable exceptions, and almost all projects were under contract by the September deadline.

projects to receive funding under the act.<sup>20</sup> In addition, of the 34 SRF Recovery Act projects, 28 are being undertaken by new SRF loan recipients and 10 are in disadvantaged communities. Moreover, the subrecipients we interviewed reported that the Recovery Act funds are enabling them to complete large, necessary projects that their communities were otherwise unable to afford. For example, Manitou Springs is replacing 4.5 miles of old water lines throughout the city because of serious problems with water main breaks. It is also installing pressure reducing valves to address water pressure problems. City officials reported that the project would have taken 20 years to complete without Recovery Act funds, and would have involved increases to user rates and a piecemeal, emergency-based approach that would have required the community to make repairs on the earlier improvements by the time the final improvements were made.

Recovery Act funds are also expected to help Colorado increase energy and water efficiencies and improve water quality across the state. Colorado funded a number of projects with the SRF green reserve to replace leaking water distribution pipelines, consolidate existing wastewater treatment facilities, and replace and upgrade conventional equipment with more efficient green technologies. Specifically, 7 of the 13 drinking water projects included as green (which represent 90 percent of the drinking water green reserve funding) were projects to replace leaking water distribution pipelines. The SRF officials estimated that replacing these pipes will lead to increased water efficiencies, saving more than 43 million gallons of water every year, an important benefit for an arid state. In addition, the SRF projects are anticipated to improve energy efficiency at the water systems: 5 projects proposed to employ hydroelectric, wind or solar power on site, and 5 projects plan to use energy-efficient drives to control water processing at treatment plants, known as variable frequency drives (VFD). Including VFDs in a wastewater system allows the system to increase or reduce water pump activity proportionally to increased or reduced water flows, which could generate significant energy savings. Further, the SRF projects are expected to help address water quality. For example, 9 clean water projects are expected to help the systems maintain or achieve compliance with federal requirements and 3 are expected to help threatened or impaired bodies of water.

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<sup>20</sup>Because the state capped principal forgiveness, some projects received both principal forgiveness and a no-interest loan.

Although SRF officials have been able to identify environmental benefits associated with these projects, it may be difficult to isolate the Recovery Act benefits over the long run. Some projects receive funding from multiple sources, including the Recovery Act, one of the base SRF programs, or other sources such as Community Development Block Grants, over multiple years. For example, projects at the Pagosa Area Water and Sanitation District (Pagosa Area), the Town of Erie, and the City of Lamar are currently funded by both Recovery Act and base program funds. Further, other projects received Recovery Act funding for some components but are waiting to receive funding for additional components to complete the project in the future. For example, the Town of Georgetown and the Town of Kremmling received Recovery Act funds for projects in their areas but need additional funding to complete the projects.

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**Colorado Exceeded the Act's Green Reserve Requirement, Selecting Projects Largely Based on Priorities Dictated by the Clean Water Act and the Safe Drinking Water Act**

Colorado exceeded the 20 percent green reserve requirement by dedicating 29 percent of the Drinking Water SRF award and 25 percent of the Clean Water SRF award to 18 green projects. In selecting which projects would receive Recovery Act funds, Colorado SRF officials explained they largely followed the priority-setting process in place for its base programs, as identified in state rules.<sup>21</sup> The state then modified its process somewhat to comply with the requirements of the Recovery Act, for example, to satisfy the green reserve requirement. This process involved, for each SRF, identifying and categorizing potential projects and then creating a list of eligible projects prioritized largely according to requirements in the Safe Drinking Water Act (for the Drinking Water SRF) and the Clean Water Act (for the Clean Water SRF). Categories of eligible projects for Recovery Act funds ranged from category 1 to category 6, with 1 being the highest-priority category. For Drinking Water SRF projects, category 1 includes projects that the state has identified as having an "acute health hazard," which may be a continuous violation of federal requirements; for Clean Water SRF projects, category 1 includes projects that improve or benefit public health or that will remediate a public health hazard. The SRF officials explained they then selected projects to receive Recovery Act funds from these eligibility lists starting at the top, with projects in the most critical category 1, and generally worked their way

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<sup>21</sup> According to the state's 2009 Intended Use Plans, state regulations contain the point system for prioritizing Clean Water SRF projects and the point system for prioritizing Drinking Water SRF projects. 5 Colo. Code Reg. §§ 1002-51.5(3), 1002-52.6(4).

down each list, with some variation. For example, if a project was not able to meet the state's deadlines, it did not receive Recovery Act funding. In two cases, the state bumped up projects from farther down the clean water list and awarded them funding because they contained green components that helped the state meet its green reserve requirement.

Although EPA identified "environmentally innovative" as a category of green projects for states to fund, just 1 of Colorado's 18 green projects contained components of this type; the rest were considered water efficiency and/or energy efficiency.<sup>22</sup> According to Colorado SRF officials, it was difficult for them to include environmentally innovative projects in the green reserve for several reasons. For example, they stated that EPA's guidance was unclear and kept evolving, a sentiment echoed by the EPA Office of Inspector General in a recent report on EPA's green guidance.<sup>23</sup> As a result, state SRF officials told us they adopted a conservative approach, staying with those projects that were obviously consistent with EPA's guidance. In addition, state SRF officials said that the state requires that every technology included in projects on the state's priority funding list be an already approved, demonstrated technology, having already undergone a new technology review by Colorado, or be an approved technology in another state. Further, given that the state's priority for drinking water projects is to address serious health hazards first and foremost, according to state officials, advancing unproven, innovative technologies is not appropriate for a project that is addressing an already acute health problem. Finally, the state was able to meet its drinking water green reserve largely through funding multiple pipeline replacement projects that both qualified for the green reserve and were at the top of the priority list because they addressed potential health hazards. As a result, the state did not solicit for additional projects, some of which may have incorporated more innovative components.

Moving forward, Colorado SRF officials stated that they would like greater flexibility to fund a wider range of water projects under the SRFs, which could include more innovative approaches. Specifically, they explained

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<sup>22</sup>In its Recovery Act guidance, EPA identified four types of projects that were eligible for green reserve funding for the Clean Water and Drinking Water SRFs: water efficiency, energy efficiency, green infrastructure, and environmentally innovative.

<sup>23</sup>EPA, Office of Inspector General, *Evaluation Report: EPA Needs Definitive Guidance for Recovery Act and Future Green Reserve Projects*, 10-R-0057 (Washington, D.C.: Feb. 1, 2010).

that they plan to revise the state's priority system to ensure more green and environmentally innovative projects are able to compete more effectively for funding. According to state officials, the relative flexibility of the state's clean water priority system, which is less focused on addressing acute health hazards, provides greater opportunities for this than the drinking water system. Changing the state's clean water priority system would enable it to more easily include projects that benefit watersheds or address nonpoint source pollution, which would enable the state to focus resources more effectively on those water bodies with the most significant water quality problems. In seeking to increase the flexibility of its priority systems, the state would be able to consider a broader range of project options for the SRFs, an action we encourage.

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**Colorado Entities Added  
New Controls for Recovery  
Act Funded State  
Revolving Fund Loans**

Three separate entities in Colorado have distinct roles in the management of the SRF programs; each has established safeguards and controls to help ensure that Recovery Act funds are spent in accordance with the act's provisions and that the communities receiving the funds are accountable for their use. The Authority is the grant recipient and is the primary entity that lends funds to local governments—the subrecipients—to build SRF projects. CDPHE coordinates with the communities to ensure they complete necessary planning, design, and construction activities, and provides general oversight, monitoring, and guidance to the subrecipients on how to report their use of Recovery Act funds. The Department of Local Affairs provides outreach to local communities and conducts financial analyses of potential and existing subrecipients.

These entities have added controls at various points in the loan process. Prior to Recovery Act funds being loaned to local communities, CDPHE assigned a manager and engineer to each project. These officials reviewed all plans and construction submissions for the projects, and the CDPHE engineer also reviewed the business cases for green reserve components. The Department of Local Affairs did a credit review on every community that applied for funds to assess the risk of accumulating debt levels and ability to repay the loans. The Authority then used the results of these reviews to craft the loan agreements, and CDPHE incorporated them into broader technical, managerial, and financial capacity assessments it conducted of proposed Drinking Water SRF subrecipients.<sup>24</sup>

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<sup>24</sup>According to CDPHE officials, they do not conduct similar assessments of Clean Water SRF projects because these assessments are not required by the Clean Water Act.

Once the Recovery Act SRF funds were loaned out, Authority officials used existing procedures to track Recovery Act loans. CDPHE officials also explained that they have the following procedures in place to track Recovery Act projects and expenditures: they (1) keep Recovery Act funds separate from base funds, (2) use a spreadsheet to track each Recovery Act project and its compliance with requirements, and (3) review every payment request to determine that it is within the scope of work and the terms of the loan agreement. Finally, CDPHE conducts inspections of each Recovery Act project quarterly during construction. These inspections, conducted by the project manager and engineer, are used to assess the work being conducted and assist the subrecipients with identifying potential gaps in compliance with the requirements of the act. The inspections are conducted on site and include photos to verify work underway and a file review. CDPHE increased the frequency of these inspections to better ensure compliance with Recovery Act requirements. Generally, for its base SRF programs, while CDPHE conducts a final site inspection for each project, it does not conduct inspections during project construction unless it becomes clear that the project is experiencing problems, indicated for example, by multiple change orders. According to CDPHE, its staff began conducting inspections of Recovery Act projects in January 2010 and has completed the first round of inspections of all but seven projects.

Officials responsible for the Recovery Act funded water projects we reviewed—at the Town of Georgetown, the City of Manitou Springs, and Pagosa Area—stated that they also have safeguards and controls in place for Recovery Act funds to ensure compliance with Davis-Bacon and Buy American provisions. For example, according to Georgetown officials, the town hired a coordinator to oversee the use of Recovery Act funds; this person reviews payrolls, conducts interviews with employees, and completes the Buy American paperwork. Manitou Springs officials told us that the city has a person on site at all times to inspect construction, verify that materials meet Buy American requirements, and interview the contractors' employees to ensure they are receiving proper wages. Finally, Pagosa Area officials stated that they keep track of all the contractors' expenditures using separate cost codes for Recovery Act work.

An additional accountability mechanism over SRF funds is the Single Audit Act audit of the Authority. The 2009 Single Audit report identified a

deficiency in the Authority's internal controls over the SRF programs.<sup>25</sup> According to the audit report, the Authority did not determine whether its subrecipients had valid Central Contractor Registration certifications on file before issuing the SRF loans, a requirement under the Recovery Act and accompanying regulations. The Authority concurred with the finding and stated that it was unaware of the requirement—which was one among several new requirements associated with the Recovery Act—until EPA provided a Recovery Act training manual in September 2009. By that time, the majority of the loans had been executed. According to the report, once the Authority and CDPHE officials learned of the requirement, CDPHE notified all subrecipients, and by December 31, 2009, all subrecipients had complied. Responsible officials stated they would verify that appropriate procedures are in place for future subawards.

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## Recovery Act Funds Helped Stabilize the State Budget, but Local Governments Experienced Varying Degrees of Assistance

According to state officials, Recovery Act funds clearly have had a significant positive impact on the state's budget condition for fiscal year 2010. As it developed its fiscal year 2010 budget, Colorado reduced general fund expenditures by \$1.5 billion through a series of cuts and used Recovery Act funds to help stabilize the budget. The budget cuts were necessary because the state continued to project declining revenues until March 2010, when the revenue forecast projected increased revenues relative to the December 2009 forecast—the first positive revenue forecast after eight quarters of continuing revenue declines. Using \$802 million in Recovery Act funds allowed the state to make up for slightly more than 50 percent of these reductions.<sup>26</sup> In addition to budget cuts, Colorado used other measures to balance its budget, including increasing revenues by an estimated \$530 million through actions such as suspending or repealing tax exemptions.

While Recovery Act funds have helped the state balance its fiscal year 2010 budget, the state faces challenges as those funds run out, beginning in fiscal year 2011. First, Colorado accelerated its use of SFSF funds in fiscal year 2010, thereby reducing the amount available for fiscal year 2011. As a

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<sup>25</sup>BKD, LLP, *Independent Accountants' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133* (Denver, Colorado: Apr. 12, 2010).

<sup>26</sup>According to state officials, these funds include SFSF and increased FMAP for Medicaid, which Colorado used, in part, to cover its increased Medicaid caseload. State officials also said that the most direct sources of Recovery Act funds in alleviating the state's budget crisis are SFSF funds and the funds made available as a result of the increased FMAP.

result, the state—and particularly IHEs that have received the majority of the funding—will face a steep drop in funding as the funds are completely spent in fiscal year 2011. State officials said that they made multiple state funding cuts in higher education during fiscal year 2010 because of multiple downward revisions to revenue estimates. This required them to use more federal funds to fill the funding gap created by funding cuts. Second, Colorado plans to spend all but approximately \$4.6 million of its \$138.3 million in SFSF government services funds by the end of fiscal year 2010. As a result, agency officials said that they have less in Recovery Act funds to fill in any budget gaps created in fiscal year 2011. Third, the Governor’s proposed fiscal year 2011 budget includes an assumption that additional Recovery Act funds for the FMAP will be extended for 6 months and will then cover the entire fiscal year. If that FMAP extension does not occur, Colorado will have a larger budget gap to fill resulting from the phaseout of Recovery Act funds during fiscal year 2011. According to state officials, they are monitoring the status of relevant congressional actions to extend FMAP.

Further, according to state officials, they believe that the phaseout of the Recovery Act funds will have a dramatic impact on balancing the budget in the future because funding shortfalls will continue to exist even as the economy improves and Recovery Act funds run out. State officials said that a funding shortfall will still exist in fiscal year 2012 and cautioned that the state should maintain a conservative approach to its budget for fiscal year 2011, given the uncertainty of revenue forecasts. The Governor’s budget request for fiscal year 2011 (\$7.1 billion) was lower than the state’s fiscal year 2010 budget (\$7.3 billion).<sup>27</sup>

The two local governments we visited—the cities of Grand Junction and Fort Collins—experienced different degrees of assistance from the Recovery Act. Table 3 contains general information about these two localities, which differed significantly in terms of their economic situations. The Recovery Act funds did not help balance these localities’ budgets but, to varying degrees, will help them meet other goals.<sup>28</sup>

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<sup>27</sup>According to state officials, the final appropriations for fiscal year 2010 are not expected to be enacted before June 2010.

<sup>28</sup>Although additional Recovery Act funds went to separate jurisdictions within the counties in which these cities are located, such as school districts or housing agencies, these funds are not included in our review.

**Table 3: The Cities of Fort Collins and Grand Junction, Colorado**

(Dollars in millions)

Locality	Population	Unemployment rate	Total operating budget in 2010	Recovery Act funds reported
City of Fort Collins	136,509	8.2	\$448.7	\$28.6
City of Grand Junction	49,688	10.3	\$93.0	\$1.9

Source: GAO analysis of U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Unemployment Statistics (LAUS) and local governments' data.

Note: Population data are from latest available estimate, July 1, 2008. Unemployment rates are preliminary estimates for March 2010, and have not been seasonally adjusted. Rates shown are a percentage of the labor force. Estimates are subject to revisions. The state's unemployment rate was 8.4 percent.

**Fort Collins.** Recovery Act funds have helped Fort Collins work toward various program goals during a time of declining revenues, although they did not help the city's general budget situation in a significant way. Fort Collins has received \$28.6 million in Recovery Act funds: \$3.4 million from formula grants and \$25.2 million in competitive grants. Fort Collins's revenues from sales and use taxes, which account for approximately half of its general fund revenues, declined 7.9 percent between 2008 and 2009. In response, the city reallocated \$2.6 million of excess reserves to the 2010 budget and cut the general fund budget by approximately \$7 million to \$102 million in 2010. According to city officials, however, funds from the Recovery Act did not help the city's budget situation because they were not used for general operating expenses.

Fort Collins's Recovery Act funds have enabled the city to progress toward its goals of reducing energy use and promoting the use of renewable energy and energy efficiency measures. Of its \$28.6 million in awarded funds, the city received \$24.2 million intended for renewable energy and energy efficiency projects in the city, with the remainder for nonenergy efforts. According to city officials, 95 percent of the energy funds is divided between two grants and is focused on helping Fort Collins create a "zero energy district"—an area that consumes only as much energy as it produces from renewable energy sources such as wind or solar power—within its downtown area. Table 4 shows the Recovery Act grants Fort Collins received that are contributing to the zero energy district.

**Table 4: Recovery Act Funded Zero Energy District Projects for Fort Collins**

(Dollars in millions)

Project name	Funding	Description	Anticipated benefits
Renewable & Distributed Systems Integration	\$4.8	Develop an integrated system for allocating electricity and renewable energy	Decrease summer peak electricity demand by 30 percent
Smart Grid Investment Grant	\$18.1	Develop a “smart grid” to more effectively integrate renewable energy sources into the electric grid	Avoid utility rate increase of 2 percent and reduce city’s operating costs by \$800,000 a year

Source: GAO analysis of Fort Collins’s Recovery Act data.

The city’s Smart Grid Investment Grant is part of the Department of Energy’s national efforts to use emerging and renewable energy resources to modernize the electric grid and enhance security and reliability of the country’s energy infrastructure. According to city officials, the implementation of the city’s smart grid involves new software development that will help manage the use of renewable energy sources on the electric grid. Further, a large part of the funding is going toward the installation of “smart meters” on local homes and office buildings, which monitor electricity consumption and ensure that the home or building does not draw electricity from the city power grid while it is producing energy from an alternative energy source. In addition, smart meters provide customers with the option to participate in a program that gives the utility the ability to reduce a home or business’s consumption during peak periods when rates are higher.

According to city officials, other significant Recovery Act awards they have received include (1) a formula grant for \$3.4 million from FTA to purchase new buses and fare boxes, which will reduce maintenance costs, and (2) a competitive grant for \$271,000 in Community Development Block Grant funds, which enabled Fort Collins to provide 1 month of rental assistance to 186 households.

**Grand Junction.** Grand Junction is an example of a locality severely affected by the recession but receiving limited assistance through the Recovery Act. Although Grand Junction had the largest percentage decrease in nonfarm jobs in the country during 2009 and applied aggressively for Recovery Act funds, the city received only 4 percent of the funds for which it applied.<sup>29</sup> Grand Junction officials said that when the

<sup>29</sup>Mesa County, the county in which Grand Junction is located, received other Recovery Act funds for programs that included food stamps and unemployment insurance.

Recovery Act was enacted, in February 2009, the city formed an 18-person team to pursue Recovery Act grants and applied for \$39.3 million in competitive grants. However, the city has received a total of \$1.9 million in Recovery Act funds—\$500,000 from formula grants and \$1.4 million in competitive grants. As a result, Recovery Act funding has had less impact on the city and its economy than officials had hoped for. According to city officials, Grand Junction's economic downturn, which is related to the decline of both the energy and construction sectors, began later than in many localities. As a result, Grand Junction's unemployment rate increased later than it did in other parts of the country, moving from 4.7 percent in December 2008 to 10.2 percent in February 2010. Estimated 2009 revenues are 19 percent (\$17.3 million) below 2008 levels. Since the beginning of 2009, Grand Junction has eliminated 70 city positions.

According to city officials, they thought the city's low unemployment rate in 2008 negatively affected their chances to receive Recovery Act funding. They said that many of the Recovery Act grant applications required that the city report the change in its unemployment rate between 2007 and 2008, which did not accurately reflect the unemployment conditions at the time it applied for the grants. For example, Grand Junction applied for a \$7.5 million Department of Homeland Security Assistance to Firefighters Fire Station Construction Grant. The grant application guidance stated that the Department of Homeland Security would provide increased consideration to "communities that have suffered the highest increases in joblessness rates." However, Grand Junction was required to report its unemployment rate from December 2007 to December 2008, during which time unemployment was under 5 percent, even though the rate had risen to 9.1 percent by the time the city submitted its application in July 2009. City officials said that they raised the concern about having to use earlier, and significantly lower, unemployment data with the Department of Homeland Security. However, they were not allowed to use a more current unemployment rate. They did not receive this \$7.5 million grant or \$30.3 million in other grants for which they applied.

Although Recovery Act funds did not help the city's budget situation, city officials said the funds did help in other areas, primarily public safety and energy efficiency. Grand Junction's \$1.6 million in public safety grants included a \$1.3 million Community Oriented Policing Services (COPS) Hiring Recovery Program grant that will fund five police officer positions for 3 years that otherwise would not have been filled. In addition, the city will use approximately \$230,000 from the Energy Efficiency and Conservation Block Grants program to help construct a compressed

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natural gas fueling station and to pilot an energy efficient street light program.

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## Colorado Reported that the Recovery Act Has Paid for Jobs in the State, although Data Quality Is Still an Issue

As of March 31, 2010, Colorado recipients reported more than 10,300 jobs (reported in FTE) funded by the Recovery Act for the third reporting period, covering January 1, 2010 through March 31, 2010. FTEs are reported quarterly on Recovery.gov by recipients of federal funding. The state of Colorado has chosen to report its Recovery Act information centrally, meaning that the state agencies submit their data through one central office. The state's central reporting process does not include local governments or authorities, such as the Colorado Water Resources and Power Development Authority. The Governor's office reported the largest number of jobs, about 4,900, because it is responsible for managing the SFSF funds for IHEs and corrections institutions. Other agencies that reported large numbers of jobs include CDE and CDOT, with almost 1,400 and more than 300 jobs respectively.

As we reported in March 2010, however, improving the quality of the jobs data is a work in progress.<sup>30</sup> In our review of several agencies' reporting data for the first reporting round ending on September 30, 2009; the second reporting round covering October 1, 2009 through December 31, 2009; and the third reporting round, we found discrepancies in some of the data reported. These discrepancies include the following:

- Colorado's LEAs did not consistently submit FTEs for the second round of reporting, with unknown effects on the total FTEs reported. According to CDE officials, they initially directed LEAs to report jobs when the LEAs requested reimbursement for their expenditures. CDE officials explained that the reimbursements of Recovery Act funding depend on requests from LEAs; historically, LEAs often wait several months to accumulate expenses prior to requesting reimbursement. As a result, only 15 percent of the state's LEAs requested reimbursement and CDE reported a total of 310 FTEs for IDEA Part B and 138 FTEs for ESEA Title I, Part A. When OMB's December 18, 2009 guidance changed the method for reporting FTEs to a quarterly process, CDE officials changed their reporting policy for the third round of reporting to require all LEAs to report FTEs whether or not they requested reimbursement of funds. While almost all LEAs reported FTEs in the

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<sup>30</sup>GAO, *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C.: Mar. 3, 2010).

third round of reporting, CDE did not change the FTEs reported for the second round.

- Several factors resulted in CDPHE and the Authority overreporting FTEs from their subrecipients for the second reporting round, although they attempted—in response to OMB’s December 18, 2009, reporting guidance—to fix FTE data during the continual corrections period (which ran from February through mid-March). CDPHE worked with EPA to correct the data for the state’s SRF programs by collecting updated information from the subrecipients, but CDPHE officials did not know that the continual corrections period ended on March 15 rather than March 31, the date in OMB’s December guidance. The deadline change was announced on [FederalReporting.gov](http://FederalReporting.gov); however, CDPHE and Authority officials said they do not regularly check this Web site and that they typically rely on communications and documents from EPA for guidance related to the Recovery Act. EPA officials said, however, that because the change was announced on [FederalReporting.gov](http://FederalReporting.gov), they did not provide written guidance to the states regarding the deadline change. Because EPA did not share this information, the state may want to regularly check [FederalReporting.gov](http://FederalReporting.gov) for updates to guidance. Despite its efforts, CDPHE did not receive all the changes from subrecipients in time—not by March 15 or by March 31—to fix the data on [Recovery.gov](http://Recovery.gov). As a result, the state reported a total of 250.4 FTEs for the second period to [Recovery.gov](http://Recovery.gov) when, according to CDPHE officials, the correct number was 144.3 FTEs.

Colorado officials reported that although the January through March 2010 round of recipient reporting did not present any insurmountable challenges, they identified some challenges going forward that will affect their efforts to provide quality control over the data they report. First, some of the Recovery Accountability and Transparency Board’s recent changes to the quarterly reporting process have created problems for Colorado’s centralized reporting efforts, adversely affecting Colorado’s ability to perform state-level data quality review and avoid duplicate reporting. In March 2010, the board informed recipients of changes that reduced the number of days that recipients could use to review and correct their data before the federal agency reviews from 10 days to 2 days.<sup>31</sup> According to state officials, reducing the number of days restricted

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<sup>31</sup>On April 9, the board extended the deadline from April 10 to April 16 for recipient reporting to [FederalReporting.gov](http://FederalReporting.gov) and added 1 day for the recipients to review their data, increasing the period to 3 days.

their ability to review their records and make any necessary changes, particularly since 1 of the 2 days fell on a Sunday. As a potential solution to this issue, the state suggested that the board leave recipient reporting records unlocked and accessible for state changes during the federal review period. According to state officials, their suggestion was not accepted by the board. State officials also suggested that a 30-day reporting period, rather than a 10-day period, would allow them to provide better quality control over their data, although it would also require legislative changes.

Second, the board allowed federal agencies to make multiple comments to the recipients but did not create a corresponding ability for states to respond to multiple comments. According to state officials, replying to individual comments greatly increases the amount of time it takes for recipients to reply to comments, which does not assist them in their quality control efforts. Finally, state officials explained that, in order for the state to report, recipients and subrecipients must maintain a current registration in the Central Contractor Registration (CCR) database. According to state officials, the registration is valid for only 1 year. If it is not renewed, FederalReporting.gov, the online Web site for recipient reporting, will reject any attempted data entries, a situation state officials said they have experienced. While the officials recently notified state agencies that they need to renew their CCR registrations, they anticipate this issue may create substantial problems in the near future, especially if a significant number of the state's subrecipients do not renew their CCR registrations. For example, CDE alone has 178 subrecipients—contacting these subrecipients and ensuring they renew their registrations on time is a significant burden for state staff. Officials said they would like to see a change made by the Recovery Accountability and Transparency Board that would allow the original registration to be used throughout the life of the grant, which would allow FederalReporting.gov to continue to accept information for an entity whose CCR information has expired.

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## State and Local Audit Entities in Colorado Identified Weaknesses in Internal Controls for Some Recovery Act Programs

The Colorado audit community has completed 7 audits and 2 non-audit services that either exclusively or partially examined Recovery Act projects, with another 5 audits ongoing and at least 20 planned for 2010 and beyond. A number of these audits identified weaknesses with internal controls over the projects. In Colorado, the Office of the State Auditor has primary responsibility for conducting independent financial and performance audits of the state's agencies, colleges, and universities, including Recovery Act funded programs. In addition to the State Auditor, some state agencies have their own internal audit divisions that may review Recovery Act funded projects, including, for example, CDOT. At the local level, of the five localities we have reviewed thus far, Denver's City and County Auditor is reviewing the city's management and use of Recovery Act funds. The other localities either do not have Recovery Act audits ongoing or are relying on Single Audits conducted under the Single Audit Act to independently check the use of these funds, where applicable.

Colorado's State Auditor recently identified significant deficiencies in the internal controls in place at the state Department of Human Services (CDHS) over aspects of the Colorado Child Care Assistance Program (CCCAP). The audit was part of Colorado's participation in the Single Audit Internal Control Project, implemented by OMB in October 2009. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular A-133 for Single Audits. Sixteen states volunteered for the project, including Colorado, whose auditors issued their interim reports on internal control for selected major Recovery Act programs by December 31, 2009, and a corrective action plan to the appropriate federal agency by January 31, 2010.<sup>32</sup>

The Office of the State Auditor selected two federal programs to include in the audit: the Child Care and Development Program Cluster, used to fund CCCAP, and the Research and Development Cluster (administered by

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<sup>32</sup>The following 16 states volunteered to participate in the project: Alaska, California, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia.

several Colorado IHEs). For CCCAP, the state spent \$91 million in federal funds—\$10.7 million of which was from Recovery Act funds—on program activities in fiscal year 2009. The audit report identified significant deficiencies with the controls over CCCAP, including errors found on the form used to report fiscal year expenditures of federal awards. According to the audit report, these errors occurred because CDHS does not have adequate written procedures, lacks supervisory review, and did not provide adequate training for completing the expenditure reports. In addition, the report stated errors on CDHS expenditure submissions could materially misstate statewide expenditures because CDHS is responsible for a large portion of the state’s federal funds. According to the report, in response to the audit findings and recommendations, CDHS stated it is developing a written procedure manual for preparing the expenditure report and that enhanced training has been provided to those responsible for preparing the supporting documentation for the report.

The State Auditor’s fiscal year 2009 Single Audit Report—which included state programs receiving both non-Recovery Act and Recovery Act federal funds—contained a number of additional internal control findings relevant to Recovery Act funds.<sup>33</sup> These included findings related to management of the Medicaid program, which had the largest Recovery Act expenditures in Colorado for fiscal year 2009—about \$252.5 million. For example, the report found the Department of Health Care Policy and Financing lacked adequate controls over identifying and recording those activities that are eligible for increased reimbursement rates available through the Recovery Act and that the department had not documented this process. Specifically, the audit found a lack of segregation of duties, lack of adequate review, and amounts excluded from reimbursement reports. The audit report made recommendations for addressing these shortcomings to the department. The department agreed and stated, among other things, that it had drafted procedures for creating, reviewing, recording, and approving financial transactions that draw down Recovery Act funds. In addition, the fiscal year 2009 Single Audit report identified further significant error rates in transactions processed for three federal programs: Medicaid, the Children’s Basic Health Plan, and the Supplemental Nutrition Assistance Program, which is overseen by CDHS. Moreover, the State Auditor has also completed an audit of the Workforce Investment Act of 1998 Youth Recovery Act funds allotted to Colorado by

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<sup>33</sup>Office of the State Auditor, *State of Colorado Statewide Single Audit, Fiscal Year Ended June 30, 2009* (Denver, Colorado: February 2010).

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the U.S. Department of Labor and used for summer youth employment services.<sup>34</sup>

At the local level, the Denver City and County Auditor identified a number of weaknesses in the city's governance of the Recovery Act grants it has received, which totaled more than \$75 million as of the end of March 2010. One of the Office of the Auditor's non-audit service Audit Alert reports found, among other things, that the city's tracking of Recovery Act funds is not compliant with city procedures, which established unique fund numbers so these funds could be tracked separately from other funds.<sup>35</sup> This alert also noted that the city was cited as failing to report on time because one agency—Denver International Airport—did not report either of its two Recovery Act grants before the deadline for the first reporting period. According to the Office of the Auditor, although Denver is not required to respond to the recommendations in its Audit Alerts, on the basis of communications with city officials, the Auditor's office expects these issues will be adequately addressed. In addition, the office is scheduled to release a performance audit report in December 2010 that will address, in part, the use and impact of Recovery Act funds.

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## Colorado's Comments on This Summary

We provided officials in the Colorado Governor's Recovery Office, as well as other pertinent state officials, with a draft of this appendix for comment. State officials agreed with this summary of Colorado's recovery efforts to date. The officials provided technical comments, which were incorporated into the appendix as appropriate.

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<sup>34</sup>Office of the State Auditor, *American Recovery and Reinvestment Act of 2009, Workforce Investment Act, Summer Youth Program Services, Department of Labor and Employment, Performance Audit* (Denver, Colorado: November 2009).

<sup>35</sup>City and County of Denver's Office of the Auditor, *Audit Alert: American Recovery and Reinvestment Act, Readiness and Governance* (Denver, Colorado: February 2010).

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**Staff  
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# Appendix IV: District of Columbia

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## Overview

The following summarizes GAO's work on the sixth of its bimonthly reviews of the American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in the District of Columbia (District). The full report on all of our work in 16 states and the District is available at [www.gao.gov/recovery](http://www.gao.gov/recovery).

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## What We Did

GAO's work in the District focused on specific programs funded under the Recovery Act, as well as general issues involving the effect of Recovery Act funds on the District's budget. The programs we reviewed—three Recovery Act programs funded by the U.S. Department of Education (Education) and the Weatherization Assistance Program funded by the U.S. Department of Energy (DOE)—were selected primarily because they include existing programs receiving significant amounts of Recovery Act funds or programs receiving significant increases in funding from the Recovery Act. We also reviewed the District's use of Community Oriented Policing Services (COPS) Hiring Recovery Program (CHRP) grant funds, which is a U.S. Department of Justice competitive grant program that provides funding directly to law enforcement agencies to create and preserve jobs and to support community policing and crime-prevention efforts. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#). Our work focused on how the funds were being used and monitored, how safeguards were being implemented, and issues that were specific to each program. In addition to our program-specific reviews, we also updated information on the District's fiscal situation and how Recovery Act funds are being used for budget stabilization. Finally, to gain an understanding of the District's efforts to oversee and monitor the use of Recovery Act funds, we talked to the District's Office of the Inspector General (DC OIG) about its oversight role and audits related to Recovery Act funds.

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## What We Found

Following are highlights of our review:

- **Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended (ESEA).** Education allocated \$37.6 million in ESEA Title I Recovery Act funds to the District to help improve teaching, learning, and academic achievement for disadvantaged

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

students. Most of the District's local educational agencies (LEA)<sup>2</sup> plan to use these funds for salaries and benefits and contracted professional services designed to support student instruction. As of April 16, 2010, the Office of the State Superintendent of Education (OSSE) had disbursed about \$1.5 million of these funds. For example, one LEA used these funds for the salary and benefits of an instructional coach to enhance the professional development and training of teachers.

- **U.S. Department of Education State Fiscal Stabilization Fund.** Education awarded the District about \$65.3 million of the District's total State Fiscal Stabilization Fund (SFSF) allocation of about \$89.3 million. These SFSF funds are intended, in part, to help the District stabilize its budget by minimizing budgetary cuts in education and other essential government services. Of the SFSF funds, 81.8 percent are designated as education stabilization funds and intended to support public elementary, secondary, and higher education, and, as applicable, early childhood education programs and services. The remaining 18.2 percent of SFSF funds are designated as government services funds, intended to provide additional resources to support education, public safety, and other government services. District LEAs plan to use SFSF funds primarily on salaries and benefits for teachers. As of April 16, 2010, LEAs reported expending over \$16.4 million in SFSF education stabilization funds and \$1.1 million in SFSF government services funds. For example, one LEA used a portion of the SFSF education stabilization funds for the salaries and benefits of music, art, and advanced placement teachers and guidance counselors.
- **Individuals with Disabilities Education Act, as amended, (IDEA) Part B.** Education allocated \$16.7 million in IDEA Part B Recovery Act funds to the District to support special education and related services for children with disabilities. As of April 16, 2010, District LEAs reported expending about \$1.6 million in IDEA Part B Recovery Act funds.
- **Weatherization Assistance Program.** DOE allocated about \$8 million in Recovery Act weatherization funds to the District for a 3-

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<sup>2</sup>The District has 58 LEAs, including 57 charter school LEAs and the District of Columbia Public Schools (DCPS). Fifty-one LEAs are eligible to receive ESEA Title I Recovery Act funds, according to the Office of the State Superintendent of Education (OSSE). Most of the charter school LEAs consist of a single campus, but some have multiple campuses or schools. DCPS comprises 129 schools.

year period. The District Department of the Environment (DDOE), which is responsible for administering the program for the District, did not begin to spend its operational weatherization funding until February 2010, making the District among the last recipients to begin spending its weatherization funding under the Recovery Act. According to DDOE officials, they have been developing the capacity and infrastructure to administer the program, such as hiring new staff, but there have been delays in this process. According to DDOE, as of March 31, 2010, it has completed weatherization for 110 units, or about 14 percent of its goal.

- **COPS Hiring Recovery Program.** In July 2009, the U.S. Department of Justice awarded about \$12 million in Recovery Act funding to the Washington, D.C., Metropolitan Police Department (MPD) to create and preserve jobs and to support community policing and crime-prevention efforts. MPD is using the grant for 50 new police officer positions and to fund these positions for 3 years. MPD expects the new officers will graduate from the Metropolitan Police Academy in August 2010, and will have an immediate effect in the community by increasing the number of officers on patrol.
- **The District's fiscal situation.** Since our February 2010 report, competitive Recovery Act grants have helped the District further expand its health care and housing programs. According to District officials, within the last quarter, the District has been awarded a total of about \$21 million in competitive Recovery Act grants. While the infusion of Recovery Act funds has helped mitigate the negative effects of the recession on the District's budget, the District continues to face fiscal challenges. As a result of deteriorating economic conditions and a decrease in expected revenues, on April 1, 2010, the District's Mayor reported that the District was facing a projected \$230 million budget shortfall in fiscal year 2010. Additionally, the Mayor's proposed fiscal year 2011 budget identified a \$523 million budget gap as a result of the decline in revenues in fiscal year 2011, slow economic recovery, and the end of Recovery Act funding.
- **Accountability efforts.** As of April 21, 2010, the DC OIG has initiated one audit specifically related to the use of Recovery Act funds involving construction contracts at the District Department of Transportation that were awarded under the Recovery Act. Other planned Recovery Act audits have not yet begun because of lack of resources.

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**The District’s Local Educational Agencies Generally Plan to Use Recovery Act Funds for Salaries and Benefits, and the Office of the State Superintendent of Education Has Begun Drawing Down and Monitoring the Use of These Funds**

Education has allocated \$143.6 million in Recovery Act funds to the District for three programs:

- Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended (ESEA) which provides funding to help educate disadvantaged students;
- State Fiscal Stabilization Fund (SFSF), which was created under the Recovery Act, in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services. Of the SFSF funds, 81.8 percent are designated as education stabilization funds and intended to support public elementary, secondary, and higher education, and, as applicable, early childhood education programs and services. The remaining 18.2 percent of SFSF funds are designated as government services funds, intended to provide additional resources to support education, public safety, and other government services; and
- Part B of the Individuals with Disabilities Education Act, as amended (IDEA) which provides funding for special education and related services for children with disabilities.<sup>3</sup>

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<sup>3</sup>We do not fully discuss the planned uses of IDEA Part B Recovery Act funds because the majority of LEAs did not have approved IDEA applications at the time we began our analysis. DCPS—which serves as the LEA for IDEA purposes for 17 charter school LEAs—had its Recovery Act IDEA application approved on January 20, 2010.

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## The Majority of Local Educational Agencies Plan to Use Their Recovery Act ESEA Title I and SFSF Funds Primarily for Salaries and Benefits and Contracted Professional Services

**Title I.** Most of the District’s LEAs’ planned spending of \$37.6 million in ESEA Title I Recovery Act funds falls into two of the six budget categories listed in the LEAs’ applications for these funds: (1) salaries and benefits and (2) contracted professional services.<sup>4</sup> (See fig. 1.) The charter school LEAs plan to spend about 58 percent of their ESEA Title I Recovery Act funds on salaries and benefits and about 17 percent on contracted professional services. In addition, the charter school LEAs plan to spend about 16 percent on supplies and materials.<sup>5</sup> In contrast, the District of Columbia Public Schools (DCPS)—the District’s largest LEA representing about two-thirds of the District’s K-12 students—plans to spend about 70 percent of ESEA Title I Recovery Act funds on contracted professional services and 7 percent on salaries and benefits.<sup>6</sup> This planned spending on contracted services, rather than on direct salaries and benefits, could help DCPS avoid expenditures that would continue beyond the time frame of the Recovery Act funds. Across all the District’s LEAs, planned spending on salaries and benefits and on contracted services was primarily designated to support instruction and support services. For example, one charter school LEA plans to use these funds to pay the salary and benefits of a reading specialist who provides targeted interventions for students falling behind in reading.

**SFSF education stabilization funds.** The District was allocated \$73.1 million in SFSF education stabilization funds, which will be used to restore the District’s primary elementary and secondary funding to the fiscal year 2008 level, and was allocated to the LEAs through the District’s Uniform Per Student Funding Formula. DCPS and the charter school LEAs

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<sup>4</sup>To receive Recovery Act funds, OSSE requires that LEAs submit an application that describes how the funds will be used, and OSSE must approve this application. In the application—which OSSE developed—there are six budget categories: Salaries and Benefits, Supplies and Materials, Fixed Property Costs, Contracted Professional Services, Equipment, and Other Expenses. The “salaries and benefits” category can support teachers, as well as employees that provide support services such as tutoring, and counseling and social work, and those who provide professional development. The budget category “contracted professional services” is similar to the “salaries and benefits” category in that contracted professional services include teaching, support services, and technical and logistical support to facilitate and enhance instruction, as well as contracts for accountants, and activities such as in-service training and conference registration.

<sup>5</sup>The third largest planned spending category for ESEA Title I Recovery Act funds was supplies and materials. The remaining portion of planned spending was spread across the other budget categories.

<sup>6</sup>DCPS also plans to spend 22 percent of ESEA Title I Recovery Act funds on supplies and materials.

are planning to use SFSF education stabilization funds primarily to maintain jobs, including teaching positions, which is consistent with the purpose of SFSF funds to minimize budgetary cuts in education and other essential government services. (See fig. 1.) The District's charter school LEAs plan to spend more than 94 percent of their Recovery Act SFSF education stabilization funds on salaries and benefits.<sup>7</sup> Within this category, the charter school LEAs plan to spend 79 percent on instruction and 17 percent on support services.<sup>8</sup> DCPS plans to spend 100 percent of its SFSF education stabilization funds on salaries and benefits. Within this category, DCPS designated about \$43.3 million for instruction and the remaining \$2.2 million of its total \$45.5 million allocation for support services, as of March 9, 2010. DCPS plans to use these funds for 608 full time teacher positions, as well as for 30 support services positions, including instructional coaches to help teachers increase student achievement, bilingual counselors, social workers, and librarians.

**SFSF government services funds.** Recovery Act SFSF government services funds for the District total almost \$16.3 million—\$9.8 million (60 percent) for public schools, including public charter schools,<sup>9</sup> and \$6.5 million (40 percent) for the Metropolitan Police Department (MPD).<sup>10</sup> LEAs in the District plan to use the largest portion of their SFSF government services funds on maintaining and creating jobs—specifically, using these funds on salaries and benefits, as shown in figure 1. Of the \$9.8 million in government services funds for education, the charter school LEAs were allocated about \$3.6 million and DCPS was allocated about \$6.2 million. Overall, the charter school LEAs plan to spend 89 percent, or over

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<sup>7</sup>The remaining portion of planned spending was spread across the other budget categories—primarily contracted professional services and supplies and materials.

<sup>8</sup>Instruction and support services are two of a total of six program spending categories in the OSSE-created application that LEAs must complete to receive Recovery Act funds. The other four categories are: administrative costs, operations and maintenance, student transportation, and other. The remaining portion of the charter school LEAs' program spending within the budget category of salaries and benefits is spread across the other four program categories.

<sup>9</sup>Similar to the SFSF education stabilization funds, these SFSF government services funds are distributed to the LEAs through the Uniform Per Student Funding Formula, which is administered by the District's Office of the Chief Financial Officer (OCFO).

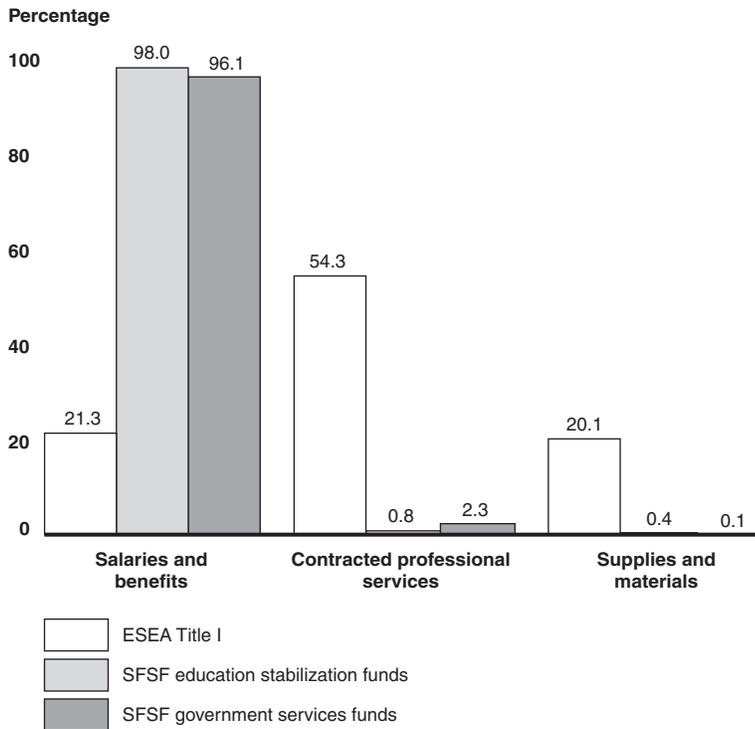
<sup>10</sup>Initially, the District had designated 40 percent of the government services funds for low-income housing, which was proposed to be used in a rotating loan fund. However, this fund would have extended beyond the time frames for Recovery Act spending, which is inconsistent with the guidelines for using SFSF government services funds, according to District officials.

\$3.2 million, of their SFSF government services funds on salaries and benefits. In this category, the charter school LEAs designated about 73 percent of funds for instruction, such as teachers, and 26 percent for support services, such as guidance counselors. In addition to salaries and benefits, charter school LEAs planned to spend SFSF government services funds on contracted professional services and equipment.<sup>11</sup> According to its application, DCPS plans to use all of its \$6.2 million of government services funds for teachers' salaries and benefits.

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<sup>11</sup>Overall, 51 charter school LEAs designated the entirety of their SFSF government services funds allocation to a single use: salaries and benefits (48 LEAs), contracted professional services (2 LEAs), and equipment (1 LEA). The remaining 6 charter school LEAs planned to spend across various categories including those listed above, supplies and materials, and other expenses.

**Figure 1: Percentage of Recovery Act Funds All District LEAs Plan to Spend in Selected Budget Categories**



Source: GAO analysis of data from District of Columbia Office of the State Superintendent of Education.

Note: We obtained Recovery Act-specific applications with budget sheets for 37 LEAs for ESEA Title I and 58 LEAs for SFSF as provided to us by OSSE. These budget sheets were approved by OSSE and identified the LEAs' planned uses of Recovery Act funds. We reformatted and analyzed the planned uses and determined that the data were sufficiently reliable for the purposes of this report. The budget categories shown in the figure are the three out of six total budget categories that have the highest planned spending. Totals do not add to 100 percent because they represent only three of the six budget categories, and the percentages have been rounded.

**The District's LEAs Have Begun Accessing Recovery Act Funds**

**ESEA Title I.** OSSE provides the LEAs with ESEA Title I Recovery Act funds on a reimbursement basis, whereby the LEAs can obligate Recovery Act funds, spend their own state and local funds, then request reimbursement from OSSE for Recovery Act funds. Before LEAs can access these funds, OSSE requires LEAs to submit an application that describes how the funds will be used and provide assurances that the uses comply with the Recovery Act. According to OSSE officials, upon approval of this application, LEAs can submit requests for reimbursement, using a

reimbursement workbook.<sup>12</sup> OSSE officials then review these workbooks to verify the requests are in line with the LEAs' approved applications. According to an OSSE official, about 75 percent of the LEAs that are scheduled to receive these funds have approved applications.

LEAs with approved applications began requesting reimbursement for expenditures related to ESEA Title I Recovery Act funds in December 2009. As of April 16, 2010, 39 of these LEAs had requested a total of about \$4.4 million for reimbursement, of which about \$1.5 million had been reimbursed. For example, according to OSSE officials, OSSE reimbursed one charter school LEA for its spending on salary and benefits for an instructional coach to enhance ongoing professional development and training for teachers.

**SFSF.** OSSE disbursed the SFSF funds to the charter school LEAs in two payments, one on January 14, 2010 (government services funds), and the other on April 15, 2010 (education stabilization funds). Charter school LEAs spend their SFSF funds and report their expenditures to OSSE,<sup>13</sup> which reviews their expenditures to verify appropriate use of the funds. As of April 16, 2010, charter school LEAs reported expending over \$6.7 million for SFSF education stabilization funds and \$1.1 million in SFSF government services funds. For example, one charter school LEA used a portion of its education stabilization funds for the salaries and benefits of art and advanced placement teachers, as well as guidance counselors. Another charter school LEA is using a portion of its government services funds on salaries and benefits for three deans of students and two computer/engineering teachers. In contrast to the charter schools, DCPS accesses its SFSF funds as it accesses other federal funds—that is, by requesting reimbursement for its expenditures through OSSE. DCPS' application for SFSF funds was approved in March 2010, and DCPS requested reimbursement for about \$9.7 million in SFSF funds as of April 16, 2010.

**IDEA Part B.** OSSE reports that as of April 16, 2010, out of the \$16.7 million allocated to the District for IDEA Part B, slightly more than \$1.4

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<sup>12</sup>OSSE officials told us they also use this process for reimbursing IDEA Recovery Act fund expenditures to LEAs.

<sup>13</sup>Currently, LEAs receive District funds periodically throughout the year and OSSE officials told us that the charter school LEAs receive SFSF funds in a similar manner. In particular, the charter school LEAs do not receive SFSF funds by means of reimbursement.

million had been requested for reimbursement by 30 of the charter school LEAs and about \$218,000 had been requested for reimbursement by DCPS. For example, one charter school LEA told us it had used a portion of its IDEA Part B Recovery Act funds to hire an inclusion specialist, whose responsibilities include supporting teachers that have students with disabilities in their class.

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### OSSE Has Developed and Begun Implementing New Subrecipient Monitoring Protocols, but It Is Too Early to Assess Effectiveness

OSSE has taken steps to reform its processes for managing and monitoring its federal grants, including implementing new protocols for monitoring its subrecipients.<sup>14</sup> According to OSSE officials, these steps were necessary because of the multiple issues identified in past audits related to OSSE's management of federal grants, as well as Education and the DC OIG designating the District's school system as a high-risk entity for management of its federal grants. Specifically, the District's fiscal year 2008 Single Audit found that OSSE had a total of 24 material weaknesses regarding internal control over compliance with major federal grant program requirements, 10 of which were directly related to ESEA Title I or IDEA funds, including deficiencies in subrecipient monitoring. Similar findings were identified in the District's fiscal year 2007 Single Audit.<sup>15</sup> In addition, Education has designated OSSE as a high-risk grantee, for weaknesses related to financial management and grants management for several of the programs receiving Recovery Act funds. The DC OIG's fiscal year 2010 audit and inspection plan includes a review to determine whether OSSE properly managed and distributed IDEA funds to LEAs and whether DCPS used the IDEA funds for their intended purposes.<sup>16</sup>

To resolve the identified subrecipient-monitoring issues, OSSE developed a new monitoring protocol as of March 2010, which includes on-site monitoring visits and desk reviews, with expenditure testing conducted during both procedures. However, it is too early to review and assess the effectiveness of OSSE's new monitoring protocol because OSSE has not had a chance to conduct a full cycle of monitoring, which concludes with

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<sup>14</sup>Subrecipients are District LEAs and other District organizations receiving federal funds through OSSE.

<sup>15</sup>OSSE was created in October 2007 to be the District's stand-alone state education agency. Prior to this, DCPS served as both the local and state education agency.

<sup>16</sup>According to the DC OIG Acting Assistant Inspector General, the agency is conducting an audit of DCPS nonpublic tuition to assess whether DCPS properly recorded Recovery Act IDEA funding and used that funding for intended purposes.

the resolution of any identified grant management issues at an LEA. OSSE implemented its new on-site monitoring protocol for the first time in March 2010. OSSE uses this protocol to conduct reviews of LEAs receiving SFSF and all ESEA grant awards, including ESEA Title I Recovery Act funds.<sup>17</sup> As of April 30, 2010, OSSE officials had conducted seven on-site visits. OSSE's on-site monitoring protocol involves interviewing LEA officials and external stakeholders, such as parents, reviewing the LEA's policies and procedures,<sup>18</sup> and conducting expenditure testing to verify appropriate uses of funds.<sup>19</sup> We observed OSSE's grant-monitoring team conduct an on-site monitoring visit of one LEA. The grant-monitoring team asked questions regarding the LEA's SFSF and ESEA Title I applications; use of SFSF and ESEA Title I funds; fiscal oversight of SFSF and ESEA Title I funds; and compliance with OSSE and federal Recovery Act reporting requirements. According to OSSE officials, based on the LEA's answers and supporting documentation, the monitoring team will determine whether the LEA had problems with its grant management and program implementation, and then will communicate such findings to the LEA during the exit conference and through a report that documents the findings.<sup>20</sup>

OSSE's desk-review protocol is intended to achieve similar objectives as the on-site visit, but is more limited in scope and does not require visiting the LEA. The desk-review protocol involves reviewing grant documents pertaining to the LEA's federal grant program implementation, including Recovery Act ESEA Title I, IDEA, and SFSF funds; reviewing the LEA's reimbursement and reporting workbook; and expenditure testing. Based on OSSE's review of documents and testing, the desk-review team determines whether the LEA had problems with its grant management and

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<sup>17</sup> OSSE officials told us that they had developed a similar on-site monitoring protocol and desk-review protocol for Recovery Act IDEA funds in March, 2010. OSSE officials stated that they plan to conduct on-site visits of three LEAs in May 2010, and if needed, will make revisions to the protocol based on the monitoring experience.

<sup>18</sup> OSSE officials told us they reviewed the LEA's policies and procedures in advance of the on-site monitoring visit.

<sup>19</sup> Prior to a site visit, OSSE requests from the LEA documentation that supports Recovery Act expenditures submitted to OSSE for reimbursement since the inception of the Recovery Act. OSSE's staff told us that expenditure testing consists of the review of supporting documentation for the expenditures—that is, looking for purchase requests, receipts, invoices, and purchase payments that validate the expenditure.

<sup>20</sup> As of April 30, 2010, OSSE had not completed the report. OSSE officials told us that the monitoring report is distributed within 60 days of the on-site visit to the LEA.

program implementation, and then communicates such findings to the LEA through a report, documenting the findings. In addition, an OSSE official told us that they intend to use desk reviews to determine the need for future site visits to an LEA. OSSE plans to begin desk reviews in May 2010. According to OSSE officials, they plan on conducting both an on-site monitoring visit and a desk review of all of the LEAs that received Recovery Act funds.

According to OSSE's protocols, following the on-site visit or desk review, OSSE's monitoring team will compile a report for the LEA that identifies findings and recommendations, and addresses corrective actions implemented by the LEA.<sup>21</sup> LEAs with one or more findings must develop and submit a corrective action plan that describes the LEA's strategies and timeline for resolving the findings. OSSE officials said that OSSE program staff will work with the LEA to develop the corrective action plan so that the plan is sufficient, manageable, and timely in resolving the findings, as determined by the OSSE program staff. OSSE officials told us that OSSE would consider all findings resolved only after an LEA has provided evidence, such as documentation of changed policies, that the corrective action plan has been implemented. Then OSSE will issue a letter to the LEA indicating the resolution of findings and document any restrictions that have been lifted. According to OSSE officials, if an LEA fails to implement its corrective action plan in a timely manner, as determined by OSSE officials, OSSE may impose restrictions on the LEA's future grant funds, including additional required reporting to OSSE; additional on-site monitoring by OSSE; mandatory technical assistance from OSSE; and withholding or suspending grant funds.

OSSE officials told us that both the on-site monitoring schedule and the desk-review schedule were determined by a risk analysis. OSSE officials determined the relative risk of its LEAs based on each LEA's fiscal year 2008 Single Audit report findings, Recovery Act grant award amounts, and whether submissions of Recovery Act grant applications and other related documents were timely. The on-site visit schedule divided the LEAs into two categories—higher-risk LEAs and lower-risk LEAs—with OSSE conducting site visits at higher-risk LEAs in fiscal year 2010 and lower-risk LEAs in fiscal year 2011. The desk-review schedule divided the LEAs into

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<sup>21</sup>Corrective actions are activities or processes that an LEA executed to correct findings or implement recommendations identified by OSSE or other auditors during previous reviews, according to OSSE officials.

three categories—high-risk, medium-risk, and low-risk—with OSSE planning to conduct desk reviews of LEAs in May 2010, July 2010, and October 2010, respectively.

With respect to SFSF government services funds allocated to MPD, OSSE is also responsible for monitoring the use of these funds. OSSE officials told us that, similar to the LEA subrecipients, MPD will have to submit its SFSF government services funds application to OSSE and provide assurances that the funds will be used in accordance with Recovery Act requirements. As of April 26, 2010, OSSE and MPD had not finalized their memorandum of understanding outlining the roles and responsibilities of each agency with respect to the use and oversight of SFSF funds. However, OSSE officials said they plan to use their new monitoring protocol to monitor MPD's use of SFSF funds, once MPD's application for SFSF government services funds is approved and MPD begins expending these funds.

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### LEAs We Visited Have Some Processes and Procedures to Help Safeguard Recovery Act Funds

We reviewed selected processes and controls of three LEAs in the District to understand each LEA's Recovery Act grant management and financial processes. We selected two LEAs that were allocated the largest portions of Recovery Act funds among the LEAs in the District: DCPS and Friendship Public Charter School. We selected a third LEA, Center City Public Charter School, which had requested the largest amount of reimbursement of Recovery Act funds as of February 19, 2010. At each of these LEAs we reviewed policies and procedures describing the LEA's internal control framework related to Recovery Act grant management and financial processes. We also interviewed the LEAs' management officials to obtain an understanding of the LEAs' internal control framework. Our LEA site reviews were limited in scope and were not sufficient for expressing an opinion on the effectiveness of LEA internal controls or compliance.<sup>22</sup>

We found that the three LEAs we visited had accounting processes in place to identify and review financial transactions including unallowable or questionable expenditures. For example, at Center City Public Charter School, the Chief Financial Officer (CFO) told us that all transactions were

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<sup>22</sup>At the time of our field work, the District's LEAs had only begun to spend Recovery Act funds. Due to limited financial transactions available, we did not test such transactions at the three LEAs we visited to determine if internal controls were implemented.

reviewed weekly in an expense report and the report was subject to three levels of review by the staff accountant, account manager, and CFO, with purchases in excess of \$25,000 reviewed by the Board of Directors. Similarly, Friendship Public Charter School's policies require that requests for payments to vendors must be submitted to the Chief Operating Officer (COO) or program manager for review and approval, which includes a check-request form, the invoice of the good or service, and evidence that the good or service was received, if applicable.

The two public charter schools provided documented policies showing their official processes for both approval and payment of purchases. For example, at Friendship Public Charter School, employees who wish to purchase goods or services enter a purchase request into an electronic accounting system. Upon submission, the cost of the purchase request is compared against the available dollars in the budget of the associated grant. If there is sufficient funding, the purchase request is submitted for approval. According to a Friendship Public Charter School official, transactions using grant funds are approved by the grant manager and the COO, in addition to other levels of approvals. Additionally, the Board Chairman, Board Treasurer, Board Secretary, and the Chief Executive Officer are the only individuals authorized to sign checks and wire transfers, with two signatures required for transactions over \$10,000. Officials at all three LEAs also told us that they had communicated Recovery Act objectives to employees through various methods including staff meetings, e-mails, and informal discussions. For example, one LEA discussed the objectives of the Recovery Act at its monthly meeting for principals, according to officials from that LEA.

All three LEAs we visited took some steps to assess risks associated with the use of Recovery Act funds. For example, two LEAs relied on external audits as their main source of identifying risks, while officials from the other LEA told us they used external audit findings as well as periodic internal discussions to assess risks, including risks involving the use of Recovery Act funds. According to officials from this LEA, the LEA's Board of Directors, the grant manager, and compliance manager discussed risks regarding Recovery Act funds, including the risk of using the funds for unallowable purposes. However, while all three LEAs took certain steps to identify risks, none of the LEAs could provide documentation on their process of evaluating risk for its possible effects or on the results of such evaluations.

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## The District Has Begun to Expend Funding on the Weatherization Program

The Recovery Act Weatherization Assistance Program is intended to weatherize homes, save energy, and create jobs. Under the Recovery Act, the District Department of the Environment (DDOE), the agency responsible for administering the program for the District, was allocated about \$8 million in Recovery Act funds by the U.S. Department of Energy. DDOE plans to spend about \$6.5 million on weatherizing homes, and the remaining \$1.5 million will be used for salaries and other administrative expenses, such as training and technical assistance.

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## The District Has Experienced Delays in Starting Its Recovery Act Weatherization Program

DDOE did not begin to spend its operational weatherization funding until February 2010, according to DDOE officials. Community-based organizations (CBO) in the District manage weatherization projects and cannot start weatherizing homes until they receive funding from DDOE. As a result, CBOs did not begin to weatherize homes until March 2010, making the District among the last recipients of Recovery Act weatherization program funding to begin spending funds. According to a DDOE official, DDOE was slow to expend funds because DDOE has been developing the infrastructure to administer the program. Recovery Act funding has substantially increased the size of the weatherization program in the District, from about \$650,000 in 2008 to about \$8 million in Recovery Act funds. To manage the program, DDOE has worked to increase its staff, but there have been delays in this process. DDOE officials told us as early as June 2009 that they intended to hire six new staff members as soon as possible to oversee and manage the program.<sup>23</sup> In October, DDOE officials stated that they expected to fill these positions by the end of November. However, by December a DDOE official stated that DDOE had yet to start the interview process because of administrative delays. As of April 5, 2010, three new-hires—including the program manager—have begun work, and one offer is pending. However, two positions still remain open, according to this DDOE official.

While the District has made some progress achieving its initial goal of weatherizing 785 homes within the 3-year funding time frame, weatherization work has just begun and only a small portion of the work

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<sup>23</sup>DDOE told us it planned to hire a program manager, an assistant program manager, two energy auditors, and two administrative support staff.

has been completed.<sup>24</sup> According to DDOE, as of March 31, 2010, it has completed weatherization for 110 units—about 14 percent of its total unit goal. However, DDOE officials told us that 101 of these units, or about 13 percent of its total goal, are located in one multifamily residence in which contractors installed one new boiler. According to a DDOE official, improvements made to a multifamily residence—such as replacing a boiler—allow DDOE to count all units in the building as having been weatherized. As of April 8, 2010, CBOs have paid contractors about \$25,500 for these 101 units, or under one-half of 1 percent of DDOE's operational budget for the weatherization program. Given that nearly 13 percent of the total unit goal was weatherized for less than one-half of 1 percent of the operation funding available, DDOE officials told us they expected their initial goal of weatherizing 785 homes to increase. Though DDOE does not have an updated estimate of how many units will be weatherized in the District with Recovery Act funding, DDOE plans to accelerate its weatherization work over the next few months and estimates expending all of its Recovery Act funding by September 30, 2010.

To manage the increase in the number of weatherization projects under the Recovery Act, DDOE has added three new CBOs—for a total of seven.<sup>25</sup> DDOE selected these additional CBOs based on specific criteria, such as the CBOs' experience and performance in weatherization work, as well as their experience in assisting low-income persons. The CBOs are responsible for obtaining and monitoring the local contractors that weatherize homes. According to DDOE officials, each CBO will receive about \$935,000 in Recovery Act funds for weatherization activities. Through monthly reports from CBOs, DDOE monitors their balances and pays the CBOs when they require more funding, releasing funding in installments of 25 percent to CBOs with whom they have previously worked and installments of 10 percent to those with no weatherization experience in the District.

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<sup>24</sup>According to DDOE, a unit is considered complete when: (1) all recommended weatherization measures are finished, (2) the CBO—which has primary responsibility for ensuring the quality of the work—performs a final inspection, and (3) the resident signs the customer satisfaction and evaluation form.

<sup>25</sup>Four CBOs had managed weatherization projects for DDOE under other programs, and DDOE continued those relationships when Recovery Act funding became available.

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## CBOs in the District Employ Different Management Practices

DDOE has given CBOs some flexibility in how they go about the day-to-day management of their weatherization programs and how they fulfill the requirements of the grant agreements with DDOE. For the purposes of this review, we contacted three of the seven CBOs to discuss their weatherization activities under the Recovery Act.<sup>26</sup> Of these three CBOs, two use contractors exclusively to perform the weatherization work as specified for each job. Of these two, one has no prior experience implementing weatherization programs and has hired a firm that, among other things, selects contractors, solicits bids, and conducts postinstallation inspections. The third CBO uses a combination of its own crews of full-time employees and contractors to complete weatherization work. Eventually this CBO intends to stop using contractors, except for certain specialized jobs, and use only its own weatherization crews. Further, this CBO provides training to its crews and plans to provide training to other CBOs and contractors in the District.<sup>27</sup>

Of the three CBOs we spoke with, none of which is a governmental entity, each has a different method of soliciting bids and awarding weatherization work to contractors. One CBO does not formally solicit multiple bids for each weatherization project. Rather, the program manager of that CBO told us he sends potential contractors a price sheet and asks them to list their prices for every weatherization item or task. He then uses that price sheet to determine which contractors offer the lowest prices for certain weatherization tasks, and selects contractors based on those prices as well as the contractors' availability, experience, and the quality of past work.<sup>28</sup> The remaining CBOs told us they solicit bids from a list of their preapproved contractors they consider qualified and reliable. According to the program manager for one CBO, their policy is to solicit one bid each from three contractors as they cycle through their contractor list, starting again from the beginning when reaching the end. The program manager said he awards the contract to the lowest bidder for each job. According to staff at another CBO, when they receive weatherization jobs from DDOE,

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<sup>26</sup>To capture a variety of approaches to performing weatherization work, we selected these three CBOs on the basis of their use of contractors as opposed to their own crews, whether they offer training to these crews, and congressional interest. We determined that the selection was appropriate for our design and objectives, and that the selection would generate valid and reliable evidence to support our work.

<sup>27</sup>DDOE does not require that contractors receive special weatherization training or certification to perform weatherization work in the District.

<sup>28</sup>According to this program manager, he bases these decisions on his own judgment and expertise from over 28 years of weatherization and contractor experience.

all of their approved contractors can bid on every job. Staff from this CBO told us that they normally awarded contracts to the lowest bidder, but factors such as the nature of the job and the experience of the contractor may also influence their decisions. CBOs told us that the system they use to report to DDOE does not accept contract bids that exceed established price limits.

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### The District Has a Variety of Procedures in Place to Monitor the Weatherization Program

DDOE and the CBOs have a number of procedures in place or planned to monitor the weatherization program.

- **Inspections:** In its Recovery Act program guidance, DOE requires all state agencies, such as DDOE, to inspect at least 5 percent of all completed weatherization work and recommends inspection of even more.<sup>29</sup> DDOE, in its grant agreement with the CBOs, commits itself to inspecting 10 percent of all work completed. DDOE officials stated that they plan to inspect more than 10 percent of all work and a greater percentage of those weatherization jobs performed by new CBOs.<sup>30</sup> In addition to DDOE's oversight of the program, all CBOs are required to perform postinstallation inspections on 100 percent of weatherization projects. The CBO that performs weatherization work using its own crews has independent contractors conduct postinstallation inspections, and these inspection reports are checked by that CBO's program manager, according to officials from that CBO. According to the CBOs we talked to, if they find cases of poor quality or workmanship, CBOs will require contractors to correct the problem at no additional cost to the CBO.
- **Reporting:** DOE requires DDOE to submit quarterly reports to DOE and to conduct annual reviews of the CBOs. The quarterly report must provide the status of work and include a comparison of the actual accomplishments with the goals and objectives established for the period, the cost status, and schedule status. The cost status must show the approved budget by the budget period and the actual costs incurred, and the schedule status should list milestones, anticipated completion dates, and actual completion dates. The annual review

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<sup>29</sup>DOE, *Grant Guidance to Administer the American Recovery and Reinvestment Act of 2009 Funding* (Mar. 12, 2009).

<sup>30</sup>This represents a decrease from prior estimates. In December 2009 ([GAO-10-232SP](#)), we reported that DDOE officials initially anticipated inspecting 30 percent of all homes and 60-70 percent of those weatherized by new CBOs.

must include all of the above reporting, in addition to the results of the physical weatherization inspections cited above. According to DDOE officials, DDOE identified a relatively small number of problems, such as contractors charging for work not performed, during prior reviews of CBOs. CBOs are required to submit monthly reports to DDOE that include details on how much funding they have spent and how much work they have completed.

- **Data gathering:** To facilitate CBO reporting, DDOE has joined other states in implementing the Hancock Energy Software Weatherization Assistance Program (Hancock system), a private-sector online reporting system that is DDOE's primary accountability tool for tracking and managing Recovery Act funds, including budgeting and invoicing, administrative costs, and job management, among other things. Using the Hancock system, CBOs record project data, allowing them and DDOE to track, for example, the number of jobs CBOs have completed as well as those still in progress. The system also shows estimated costs for each weatherization item or task, as well as estimates of the time it will take to complete the work. Officials from CBOs said they would use this feature to evaluate contractor bids. DDOE officials stated that they use the Hancock system to monitor each CBO's progress and perform daily checks of the data entered. In October 2009, DDOE provided training in the use of the Hancock system to CBOs weatherizing homes in the District. DDOE officials said that the reliability of the data in the system will be checked through inspections.
- **Client Eligibility:** A home is eligible for the Recovery Act weatherization program if household income is at or below 200 percent of the poverty level.<sup>31</sup> DOE has provided guidance to states on how to determine income eligibility.<sup>32</sup> In the District, eligibility for the weatherization program is determined by DDOE's Low Income Home Energy Assistance Program (LIHEAP) intake processors after examining certain pertinent documents, such as income statements. For multifamily apartment buildings (five units or more), 66 percent of the households must meet income requirements for the entire building to be eligible for weatherization program funds.

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<sup>31</sup>The pre-Recovery Act Weatherization Assistance Program had an income limit of 150 percent of the poverty level.

<sup>32</sup>DOE guidance lists the dollar amount of the 200 percent poverty threshold for various family sizes, along with the types of income to consider when determining eligibility. See DOE, WPN 09-05 (Feb. 18, 2009).

We were unable to fully assess the quality or completeness of these procedures at this time because the District's weatherization program has not progressed enough for DDOE or CBOs to provide completed project files for us to review.<sup>33</sup> Further, DDOE has not begun reviewing how CBOs are using Recovery Act funds, and has only recently begun conducting on-site inspections of completed work. However, staffing issues could affect the District's effort to monitor its weatherization program. While DDOE has hired a project manager, the staff member primarily responsible for site visits—the assistant project manager—had not been hired as of April 5, 2010. Further, DDOE expects finding someone to fill this position to be a time-consuming effort because a successful candidate must possess significant construction experience, according to DDOE. Considering the quantity and pace of the weatherization work being undertaken with Recovery Act funds, this vacancy may hinder DDOE's ability to effectively monitor CBO and contractor work.

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## The District Has Used COPS Hiring Recovery Program Funds for Hiring New Police Officers

CHRP is a Department of Justice competitive grant program that provides funding directly to law enforcement agencies to create and preserve jobs and to support community policing and crime-prevention efforts. The Recovery Act made \$1 billion in grant funding available through CHRP. In April 2009, the Washington, D.C., MPD submitted its application and in July 2009, was awarded a CHRP grant of \$12,146,550 for 50 new police-officer positions. Fifty new recruits entered the program on October 26, 2009. As of May 8, 2010, about 11 percent of CHRP funding (or about \$1,382,000) has been expended, according to MPD officials. MPD officials project that the 49 recruits who have remained with the program will graduate from training at the Metropolitan Police Academy in August 2010, and will have an immediate effect in the community by increasing the number of officers on patrol.<sup>34</sup> According to MPD officials, the CHRP-funded police officers will be assigned to neighborhood patrols and work closely with community members to fight crime in the 46 Police Service Areas in the seven Police Districts, thereby contributing to the MPD community-policing strategy focused on creating a strong, visible, and

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<sup>33</sup>According to one CBO, completed project files contain: contractor estimates, pre- and postweatherization pictures, invoices, daily log sheets, relevant DDOE audits, Davis-Bacon payrolls, and a signed resident survey.

<sup>34</sup>According to MPD officials, of the original 50 recruits, two trainees dropped out in the first week of the program and were replaced immediately from the roster of eligible applicants and, 3 months into the training program, another trainee dropped out. As a result, 49 recruits remain in training with MPD.

accessible police presence in all neighborhoods. When the grant term expires after 3 years, CHRP grantees must retain all positions funded through CHRP for at least 1 additional year. To meet the 4th-year retention requirement, MPD intends to seek local funding to cover salaries and benefits of the CHRP officers. MPD officials anticipate that an economic recovery by 2012 will allow the District to provide this funding.

## Recovery Act Funds Aid the District's Budget and Expand Programs, but the District Continues to Face Fiscal Challenges

**Table 1: Characteristics of the District of Columbia**

Population	Unemployment rate	Fiscal year 2011 operating budget
591,833	10.9%	\$8.9 billion

Sources: U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics (LAUS), District of Columbia budget documents.

Note: The data are from budget documents. Population data are from July 1, 2008. Unemployment rate is a preliminary estimate for March 2010 and has not been seasonally adjusted. Rate is a percentage of the labor force. Estimates are subject to revision.

Since our February 2010 report, competitive Recovery Act grants have helped the District further expand its health care and housing programs. According to District officials, within the last quarter the District has been awarded a total of about \$21 million in competitive Recovery Act grants. For example, on March 19, 2010, the District's Department of Health was awarded a \$4.9 million grant for wellness and tobacco-prevention programs in the District. The grant is a part of the U.S. Department of Health and Human Services' (HHS) Communities Putting Prevention to Work initiative. On February 17, 2010, the District's Department of Health Care Finance was awarded \$5 million from HHS for the Statewide Health Information Exchange Planning Cooperative Agreement. On February 26, 2010, the District's Department of Housing and Community Development was also awarded a grant of approximately \$9.5 million to stabilize neighborhoods and stimulate the housing market for neighborhoods affected by high rates of housing foreclosure and vacancies. The U.S. Department of Housing and Urban Development awarded the District this grant as a result of a competition the department held for Neighborhood Stabilization Program 2 funds. According to District officials, the remainder of the grant awards received was under \$500,000 per award.

While the infusion of Recovery Act funds has helped mitigate the negative effects of the recession on the District's budget, the District continues to face fiscal challenges. On April 1, 2010, the District's Mayor reported that the District was facing a projected \$230 million budget shortfall in fiscal

year 2010. According to the Mayor's budget-gap-closing proposal, the budget shortfall was the result of a \$35 million decline in estimated revenue due to the District's weakened economy, \$185 million in projected spending pressures,<sup>35</sup> and the repayment of \$10 million for the use of contingency reserve funds.<sup>36</sup> The budget shortfall occurred even though the District used all of its Recovery Act SFSF funds, \$89.3 million, for direct budgetary relief in fiscal year 2010.<sup>37</sup> To address this budget shortfall for fiscal year 2010, the Mayor proposed a plan to reduce \$131 million in expenditures, reduce \$69 million in spending pressures, and generate an additional \$45 million in revenues.<sup>38</sup> Additionally, the Mayor's proposed fiscal year 2011 budget identified a \$523 million budget gap as a result of the decline in revenues in fiscal year 2011, slow economic recovery, and the end of Recovery Act funding. The Mayor's budget proposes to close the projected \$523 million budget shortfall for fiscal year 2011 through maximizing efficiency in the District government including such strategies as the elimination of 385 positions through attrition, retirement, and reductions-in-force;<sup>39</sup> freezing automatic pay increases for government employees; and renegotiating contracts with the District's vendors. Despite these budget challenges, the District's Chief of Budget Execution told us that the District would not use its Rainy Day funds to close its fiscal year 2011 budget gap because by law the Rainy Day funds that are used by the District must be paid back in full over the following 2 years—

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<sup>35</sup> According to District officials, a spending pressure is a situation where an agency may need to spend more money than it has budgeted resulting in an expected budget shortfall. For example, the District's Fire and Emergency Medical Services Department has identified spending pressures of \$5.3 million consisting of estimated payroll expenses that are over its budgeted amount.

<sup>36</sup> In fiscal year 2009, the District used funds from the Contingency Reserve to provide advance funding to the District's public charter schools, the replenishment of which is mandatory, subject to certain deadlines, under District of Columbia law. D.C. Code § 1-204.10(b)(6), (c)(3). The Mayor's gap-closing plan repays \$10 million, or half, of the funds borrowed from the Contingency Reserve.

<sup>37</sup> Originally, the District had budgeted \$18 million in SFSF funds to use in fiscal year 2009 and \$71 million in SFSF funds to use in fiscal year 2010.

<sup>38</sup> According to the Mayor's budget-gap-closing proposal, the District has a total, projected budget need of \$245 million, which consists of a \$230 million projected budget shortfall, \$10 million for repaying its Contingency Reserve Fund and \$5 million for repaying its Operating Cash Reserve Fund.

<sup>39</sup> According to the Mayor's proposal, the District has eliminated a total of 2,016 District government positions during the last 2 years.

with one half of the funds repaid in the first year and the remainder of the funds repaid in the second year.

The District has prepared for the end of Recovery Act funding because the District is required by law to prepare an annual balanced budget and multiyear financial plan. As a result, District officials have accounted for the future decrease in Recovery Act funds in planning the budgets for fiscal years 2011 to 2014.

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## The District's Office of the Inspector General Has Begun Audits of Recovery Act Funding

DC OIG is responsible for conducting audits, inspections, and investigations of government programs and operations in the District, including auditing the District's use of Recovery Act funds. As of April 21, 2010, the DC OIG has initiated one audit specifically related to the use of Recovery Act funds involving construction contracts with the District Department of Transportation that were awarded under the Recovery Act. According to DC OIG, the purpose of this audit is to determine whether the District Department of Transportation fulfilled the terms of its certification under Section 1511 of the Recovery Act,<sup>40</sup> complied with District procurement regulations in awarding contracts, and utilized effective internal controls. A senior DC OIG official told us that other planned audits of Recovery Act funds had not begun because of limited resources within the agency. Nevertheless, this official said that the DC OIG has two audits that touch on Recovery Act funds, though use of Recovery Act funds were not part of the audit objectives in either case: (1) an audit of the Highway Trust Fund, which verified that no Recovery Act funds were included within Highway Trust Fund spending, and (2) an audit of DCPS nonpublic tuition to assess whether DCPS properly recorded Recovery Act IDEA funding and used that funding for intended purposes.

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<sup>40</sup>With respect to Recovery Act funds made available to state or local governments for infrastructure projects, the Governor, mayor, or other chief executive, as appropriate, is required to certify that the infrastructure investment has received the full review and vetting required by law and that the chief executive accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars. The certification is also to include a description of the investment, the estimated total cost, and the amount of Recovery Act funds to be used, among other requirements. Recovery Act, § 1511, 123 Stat. 287.

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**District Comments on  
This Summary**

We provided the Office of the Mayor of the District a draft of this appendix on May 6, 2010. On May 10, 2010, the Recovery Act Co-Coordinator within the Office of the City Administrator concurred with the information in the appendix and provided technical suggestions that were incorporated, as appropriate. In addition, we provided relevant excerpts to officials of the District agencies and organizations that we visited. They agreed with our draft and provided some clarifying information, which we incorporated, as appropriate.

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**GAO Contact**

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**Staff  
Acknowledgments**

In addition to the contact named above, Leyla Kazaz, Assistant Director; Adam Hoffman, analyst-in-charge; Laurel Beedon; Labony Chakraborty; Sunny Chang; Nagla'a El-Hodiri; John Hansen; Nicole Harris; and Mattias Fenton made major contributions to this report.

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# Appendix V: Florida

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## Overview

The following summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Florida.<sup>1</sup> The full report on our work in 16 states and the District of Columbia is available at [www.gao.gov/recovery](http://www.gao.gov/recovery).

Florida has been deeply affected by the national economic recession, exceeding the national unemployment and home foreclosure rates as well as facing budget gaps. The state has taken steps to reduce expenditures and increase revenues and has used Recovery Act funds to address its short-term economic hardship. Florida officials expect state agencies, cities, counties, non-profits, and other organizations to receive about \$20 billion in Recovery Act funds over multiple years through formula and competitive grants. Additional funding goes directly to individuals through unemployment compensation, increased food stamp assistance, and other programs.

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## What We Did

Our work in Florida focused on specific programs funded under the Recovery Act. From January to May 2010, we collected relevant data to understand how they were using funds (see table 1). Our review focused exclusively on these entities and our results cannot be generalized to Florida or nationwide. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](http://www.gao.gov/recovery).

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

**Table 1: Sites Selected for the Sixth Round, Rationale, and Work Done**

Program	Entities and sites selected	Methodology and information collected
Workforce Investment Act of 1998 (WIA) Dislocated Worker Program	<ul style="list-style-type: none"> <li>Florida Agency for Workforce Innovation (FAWI)</li> <li>Eight local workforce boards based on increases in unemployment rates as compared to all Florida counties. The eight boards collectively received 45 percent of the total Recovery Act WIA allotment to state.</li> </ul>	<ul style="list-style-type: none"> <li>FAWI: Conducted interviews on state and workforce boards' implementation of program and reporting of obligations to the U.S. Department of Labor (Labor).</li> <li>Gathered data from each of the eight local boards and visited two: Region 20, Workforce Solutions; and Region 23, South Florida Workforce Investment Board.</li> </ul>
Weatherization Assistance Program	<ul style="list-style-type: none"> <li>Florida Department of Community Affairs (DCA)</li> <li>Three subgrantees: Suwannee River Economic Council, Inc., Pinellas County Urban League, and Indiantown Non-Profit Housing, Inc. Selected subgrantees based on the size of the respective programs and geographic dispersion</li> </ul>	<ul style="list-style-type: none"> <li>DCA: Discussed management controls in place.</li> <li>Subgrantees: Selected 36 weatherization cases either randomly or judgmentally based on geographic dispersion within the subgrantees' service areas to review for documentation supporting compliance with DCA requirements, such as income eligibility; however, we did not independently verify clients' income.</li> <li>Weatherized homes: Visited 29 homes to determine that the work paid for was completed and of acceptable quality. A licensed engineer on our staff participated in inspections of these homes to assess work quality, and we received technical assistance from a consulting engineering firm on issues involving heating, ventilation, and air conditioning equipment.</li> <li>Visited University of Central Florida, Solar Energy Center, which is training local weatherization inspectors, and interviewed center officials.</li> </ul>
Public Housing Capital Fund Program (formula grant)	<ul style="list-style-type: none"> <li>Jacksonville and Miami Department of Housing and Urban Development (HUD) field offices</li> <li>Four public housing agencies, two of which obligated less than 50 percent of their Recovery Act Capital Fund formula grants as of mid-February 2010 (Pasco County and city of Lakeland) and two of which had obligated more than 50 percent as of the same date (cities of Orlando and Sarasota)</li> </ul>	<ul style="list-style-type: none"> <li>HUD field offices: Interviewed officials about pace of obligations and HUD's oversight and technical assistance.</li> <li>Public housing agencies: Inquired about challenges in obligating funds, reporting, and HUD's oversight and technical assistance at four selected agencies. Interviewed officials at agencies about internal controls and collected relevant documents; at Orlando Housing Authority, performed limited testing of internal controls over certain financial transactions and their compliance with requirements of the Recovery Act Capital Fund formula grant. We did not independently determine whether the goods/services paid for were received and met various requirements, such as Buy American.</li> </ul>
Clean Water and Drinking Water State Revolving Funds	<ul style="list-style-type: none"> <li>One Drinking Water project in city of North Miami Beach and one Clean Water project in city of Stuart.</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed Florida's method of awarding these Recovery Act funds and its approach to ensure accountability. We did no testing of controls, such as Buy American, or whether goods/services paid for were received.</li> </ul>

Program	Entities and sites selected	Methodology and information collected
State and local budgets	<ul style="list-style-type: none"> <li>State budget officials</li> <li>One city, Orlando (population 230,519), and its county, Orange County (population 1,086,480), because both have high unemployment rates—11.5 percent and 12 percent for Orlando and Orange County, respectively, as of March 2010—and are among the areas experiencing the highest foreclosure rates relative to the state average</li> </ul>	<ul style="list-style-type: none"> <li>Interviewed state officials on state’s use of Recovery Act funds and reviewed budget documentation.</li> <li>Interviewed city of Orlando and Orange County officials on use and amount of Recovery Act funds received, and strategies for addressing challenges when Recovery Act funds are no longer available, and reviewed localities’ budget documents.</li> </ul>
Transparency and accountability (recipient reporting and Single Audit Project)	<ul style="list-style-type: none"> <li>Florida Auditor General</li> <li>Florida Department of Education</li> <li>Florida Agency for Workforce Innovation</li> <li>A Florida public housing agency</li> <li>Florida Recovery Czar and inspectors generals</li> </ul>	<ul style="list-style-type: none"> <li>Assessed the involvement of Florida officials participating in the federal Office of Management and Budget’s (OMB) Single Audit Pilot Project by reviewing audit findings, recommendations, and corrective actions taken as a result of the project.</li> <li>Discussed recipient reporting as well as audit work planned or completed.</li> <li>Interviewed officials and reviewed documentation at a local educational agency, an institution of higher education, and a public housing agency in Florida regarding job calculations for the second and third rounds of recipient job reporting. These entities were selected because they are among the largest recipients of education and public housing Recovery Act funds in Florida.</li> </ul>

Source: GAO.

## What We Found

We reviewed the implementation of several Recovery Act programs in Florida and found that state agencies and other grant recipients are generally meeting statutory deadlines or goals for obligating Recovery Act funds, meaning that recipients have contracts in place to begin work or provide services. However, several recipients we visited said they faced implementation challenges, such as understanding new requirements under tight time frames for obligating funds. Moreover, in a few of the programs reviewed, we identified several compliance challenges and control gaps that state officials committed to address.

- Dislocated Worker Recovery Act Funds.** The state agency administering the WIA program has data on local workforce boards’ expenditures of their entire WIA allocation (Youth, Adult, and Dislocated Worker), but state officials reported not having data on local boards’ obligation of funds. Half of the eight local boards we contacted regarding their dislocated worker allocation—to be used for employment and training activities to assist workers dislocated by

layoffs or terminations—reported obligating or spending their entire allocation of funds by January 31, 2010. All eight boards reported using Dislocated Worker funds to place additional people in employment-related training; taking steps to address demand for services; having data-collection and reporting procedures that accounted for Recovery Act funds; and using site visits to monitor performance of those receiving funds. In doing our work, we learned that the state agency overseeing Florida’s workforce system has been reporting obligations data to the U.S. Department of Labor (Labor) that do not satisfy Labor’s definition for obligations. The state agreed to change the way data are reported.

- **Weatherization.** Florida has established a variety of management controls for weatherizing residences using Recovery Act funds and has significantly increased the pace of home weatherizations between September 2009 and March 2010 to a total of 1,987 single family homes as of March 31, 2010, according to data received from the state. We found several gaps in the controls, resulting in problems undetected by program personnel or noncompliance. At the three subgrantees we reviewed, we found some instances of work done that was of unacceptable quality or inconsistent with planned work, or work charged but not done, and potential health or safety issues that were not addressed. In addition, we raised with state officials that stronger guidance and oversight by the state Department of Community Affairs (DCA), which administers the program, could help to ensure that subgrantees use local market rate information to obtain fair and reasonable prices for goods and services, as required for spending Recovery Act funds. DCA and subgrantees agreed to act on our suggestions to address the problems we identified.
- **Public Housing Recovery Act Capital Fund Formula grants.** According to HUD, public housing agencies in Florida receiving Recovery Act Capital Fund formula grants met the March 17, 2010 deadline for obligating these funds. In our review of internal control documentation at four selected public housing agencies, we found each had internal control policies for procurement and for Recovery Act-required information.
- **Drinking Water and Clean Water and State Revolving Funds.** Florida officials told us all Recovery Act-funded projects were under contract by the February 17, 2010 deadline. However, state officials said they faced challenges in processing the high volume of drinking water and clean water project requests while some local subrecipients

had to take additional steps to meet state contracting requirements and Recovery Act requirements for U.S.-made construction materials.

- **State and Local Budgets.** Florida officials project a slight improvement in the state's fiscal condition; however, they expect the economy may take a long time to recover fully. Officials said that Recovery Act funds have not eliminated, but have limited, the need to use reserves to balance the state's general fund budget. Officials in Orlando and Orange County said Recovery Act funds have been used mainly for short-term strategies to provide services to communities, with funds contributing a small amount to their budgets.
- **Transparency and accountability.** Florida's Recovery Czar expressed concern that the total Florida award amounts posted on the federal Recovery Act Web site are overstated due in part to double-counting of submitted recipient reports caused by agencies assigning different award identifiers from one round to the next. Also, at one of the recipients we visited we identified errors in data collection and reporting of jobs created and retained for the second and third rounds of reporting. In addition, Florida was one of 16 states participating in a federal project to communicate audit findings earlier. Most of the Florida officials we spoke with expressed concerns about the project's usefulness, especially given the increased work load. In addition to participating in the project, various state agencies continue to provide oversight of Florida's spending of Recovery Act funds.

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## Most Workforce Boards Appear on Track to Meet Recovery Act Spending Deadlines, but State Needs to Report Correct Obligations Information

Most Florida workforce boards appear on track to spend their Workforce Investment Act (WIA) Recovery Act allocations. WIA Recovery Act funds must be spent by June 30, 2011 to provide employment and training services to job seekers. As of January 31, 2010, 19 of the state's 24 local area boards have spent half or more of their combined WIA Adult, Dislocated, and Youth allocation, according to data collected by the state. Because the state reported that it did not collect data on local boards' obligations, we queried boards about a subset of their total allocations—those for dislocated workers. Half of the eight boards we contacted reported obligating or spending their entire allocation of these funds (see fig. 1). All eight also reported placing additional people in training using these funds. For example, the workforce board for the local area that includes Orlando, reported placing over 1,200 people in training using these funds.<sup>2</sup> According to workforce officials, various factors may explain boards' obligations, spending, and number of people trained using Recovery Act funds. These include local demand for training, training providers' class schedules, and decisions boards made given the flexibility afforded them. Officials at all eight boards told us they used various strategies to address increased demand for services, including hiring additional staff, increasing service hours and locations, and utilizing on-line resources and linked their ability to provide services to the availability of Recovery Act funds. They also said they had reporting and data-collection procedures that accounted for Recovery Act funds and that they used site visits as part of monitoring performance.

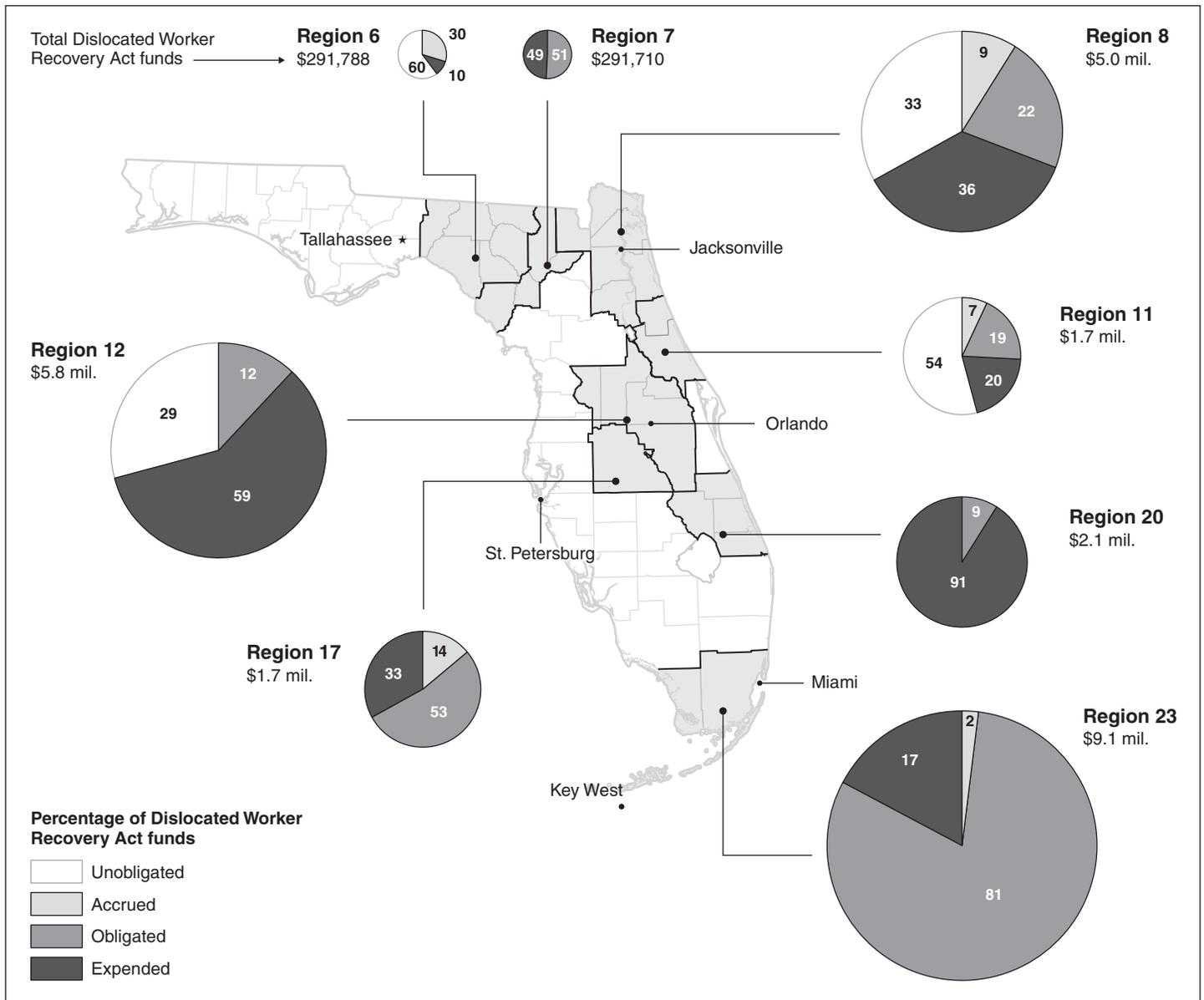
In collecting information on boards' obligations and expenditures, we learned that, when filing its quarterly financial reports to Labor, the state agency overseeing Florida's workforce system was not following the definition of obligations Labor specifies in its guidance.<sup>3</sup> According to state workforce officials, the state reported its obligations, not those of local workforce boards as required. Under the Workforce Investment Act of 1998 the local boards' obligations are the basis for reallocating funds. Florida officials said they would change how they report obligations.

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<sup>2</sup>Because job seekers can use self services (e.g., on-line and computer-based job search resources) remotely or at the career centers the boards oversee, the number of people served using such funds, in all likelihood, surpasses the number placed in training.

<sup>3</sup>Any effect this error had was potentially mitigated by a waiver Labor granted Florida. This waiver allowed Florida to recapture funds from local workforce boards based on their expenditures. The waiver was not renewed for the remainder of program year 2009.

**Figure 1: Commitment of Dislocated Worker Recovery Act Funds by Eight Workforce Boards, as of January 31, 2010**



Sources: GAO analysis of data submitted by eight Florida local area boards; National Atlas of the United States of America (base map)

Note: To select sites, we first examined Bureau of Labor Statistics data on the net change in unemployment in Florida counties from December 2008 to December 2009. We selected those counties with the greatest net gain and identified their local workforce board. Region 15, Tampa Bay WorkForce Alliance, Inc., was captured in our original selection but we excluded it because of ongoing work related to a report by the Florida Office of Inspector General. The eight workforce boards we selected collectively received 45 percent of the total WIA Recovery Act allotment to the state of Florida.

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Accruals are amounts owed for goods and services that have been received but for which cash has not yet been disbursed. Expenditures are cash disbursements or outlays. Obligations are legally binding commitments to expend funds.

According to Labor, states received their funding allocations in March 2009. Some boards moved a portion of their Dislocated Worker allocation to their WIA Adult Program. The allocations in the graphic above reflect these transfers.

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## Florida Weatherization Assistance Program Has Controls in Place, but We Identified Some Compliance Issues and Control Gaps

The Recovery Act Weatherization Assistance Program is intended to weatherize homes, save energy, improve health and safety and create jobs. To accomplish these goals, DCA funded 27 subgrantees, which include local governments and nonprofit organizations, most of which had managed prior DCA weatherization projects. Other subgrantees were selected through a competitive process. In addition to weatherizing homes (e.g., insulating walls and attics, caulking), subgrantees are required by DCA to address, within limits, health and safety issues related to weatherization work (e.g., lead-based paint).<sup>4</sup> The program also has recipient eligibility requirements.<sup>5</sup> Table 2 shows the amount of Recovery Act funds allocated to Florida as well as the funds obligated and expended as of March 31, 2010. Florida plans to spend about \$145.2 million on weatherization of 19,090 private and multifamily units and about \$31 million has been set aside for training and technical assistance. However, if DCA determines that any training and technical assistance funds will not be utilized at the state level, it said that it will allocate the remaining funds to subgrantees meeting or surpassing their production goals to weatherize additional dwellings.

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<sup>4</sup>Florida's 10 authorized weatherization measures, in descending order of energy savings importance are: air sealing, attic and floor insulation, dense-pack sidewall insulation, solar window screens, smart thermostat, compact fluorescent lamps, seal/insulate ducts, refrigerator replacement, heating and cooling systems, and water heater repair or replacement. DCA allows subgrantees to spend an average of \$6,500 per home for weatherization and related services, and up to \$600 per home for correction of related health and safety issues.

<sup>5</sup>Recipients of these services may not have total household income exceeding 200 percent of the national poverty level, with preference given to homeowners, the elderly (60 and over), residents with disabilities, families with children under 12, and households with high utility bills.

**Table 2: Florida’s Weatherization Assistance Program Allocation, Funds Obligated and Expended as of March 31, 2010**

Dollars in millions

<b>Recovery Act Weatherization Assistance Program grant total allocation 2009-2012</b>	<b>Allocation received</b>	<b>Obligated funds</b>	<b>Expended funds</b>
\$176.0	\$88.0 (50 percent of total allocation)	\$58.1	\$22.3

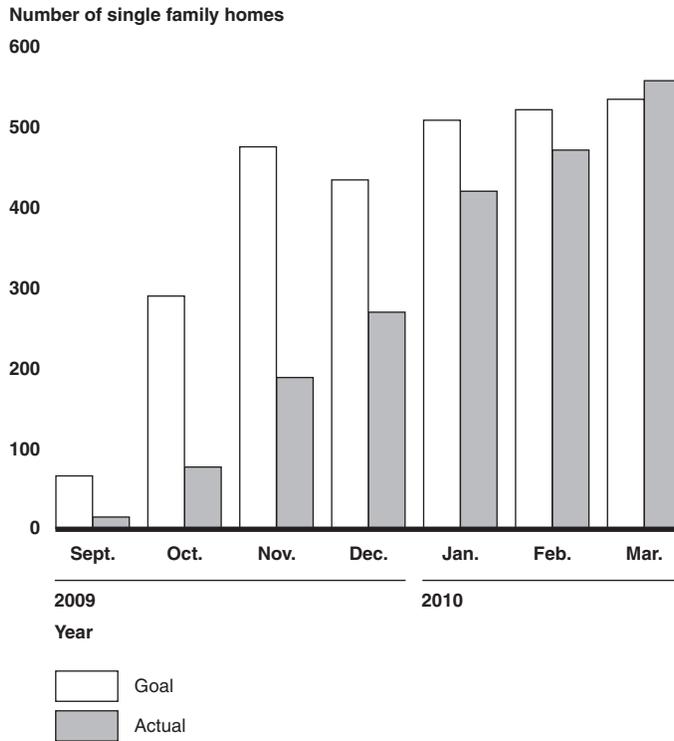
Source: Data from the Florida Department of Community Affairs.

### Florida Has Significantly Increased Weatherization Pace

Despite a slow start to weatherizing homes in 2009, Florida reports increasing home weatherizations in 2010. However, the slow start means that DCA is working to close a gap between homes weatherized and DCA’s overall goal to date. Subgrantees did not begin Recovery Act weatherizations until September 2009. Several factors affected startup: receipt of funds from the U.S. Department of Energy, hiring and training subgrantee staff, identifying and orienting new contractors, and implementing Davis-Bacon wage requirements after delays in receiving updated wage rates from Labor. Notwithstanding these factors, as figure 2 shows, Florida reported continuously increasing its home weatherizations since September 2009, weatherizing a total of 1,987 single-family homes as of March 31, 2010.<sup>6</sup> Because Florida reported achieving only about 43 percent of its home weatherization goal for the last 4 months of 2009, DCA is about 30 percent below its overall goal as of March 31, 2010. Nonetheless, Florida officials reported achieving about 93 percent of their goal for the first 3 months of 2010, and exceeding their goal for March 2010 by 23 homes.

<sup>6</sup>We assessed the reliability of these data by comparing the number of completed homes reported by DCA to the number of homes reported completed by DCA’s contract field monitors for two subgrantees we reviewed for selected time periods, interviewing DCA officials, and reviewing the results of a similar test done by DCA’s Inspector General. We determined that the data were sufficiently reliable for our purposes.

**Figure 2: Actual Homes Weatherized Compared to Monthly Goals for Florida Weatherization Assistance Program**



Source: DCA.

In addition, as of March 26, 2010, Florida reported about 870 homes in progress and over 8,000 clients on subgrantees’ waiting lists or qualified to receive benefits. DCA’s 3-year goal is to weatherize at least 19,090 dwellings by March 31, 2012, including 13,812 single-family and 5,278 multifamily residences. Florida is also preparing to initiate its multifamily residence weatherizations: A DCA official said two contracts for 320 units in Escambia County are at the final stages. DCA officials said that through continued high production on single family homes and launching of its multifamily initiative, they should meet their target of weatherizing at least 5,700 homes statewide by the end of September 2010. Although Florida has not established a goal, DCA plans to measure energy savings. Thus far the data it collects to measure program results show that home heating and air conditioning systems should operate less frequently and more efficiently

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based on weatherization improvements.<sup>7</sup> As of March 31, 2010, DCA reports that its weatherization program has saved or created 339 jobs.

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### DCA Has Established and Implemented a Variety of Management Controls

As we previously reported, and recently found, DCA has instituted a variety of management controls, such as policies for determining and documenting (1) client eligibility and priority for services, (2) completion of home energy audits before work is performed, (3) work priorities and maximum allowable costs, and (4) accuracy of data entered into the state's data system and proper reimbursement.<sup>8</sup> In addition, DCA requires training for certain subgrantee staff and their construction contractors and that both clients and subgrantees approve completed work. DCA also reviews subgrantees' operations, their requests for reimbursements, clients' files, and corrective actions. It also plans to visit at least 10 percent of the homes weatherized. As of March 31, 2010, DCA had completed operations reviews of eight subgrantees and inspected 49 homes for completed weatherization work, according to DCA officials. DCA has also addressed some performance issues among subgrantees, replacing 3 of a total of 27 subgrantees for previous poor performance. Since November 2009, DCA has contracted with field monitors to verify subgrantees' data entries, review 100 percent of client files, and inspect 50 percent of homes completed. As of the end of March 2010, DCA reports that contract monitors reviewed 1,899 of 1,987 client files in which subgrantees sought payment<sup>9</sup> and inspected 983 completed homes.<sup>10</sup> DCA's Inspector General and Florida's Auditor General have reviewed or plan to review the weatherization program. In addition, the U.S. Department of Energy reviewed DCA's weatherization assistance program in February 2010.

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<sup>7</sup>According to DCA, weatherization work to date has resulted in a reduction of about 28 percent in air infiltration.

<sup>8</sup>[GAO-09-1017SP](#).

<sup>9</sup>Prior to the contract-monitoring program, 88 cases were reviewed by DCA staff.

<sup>10</sup>In addition, DCA recently awarded a contract to provide fiscal monitoring and technical assistance to 14 subgrantees on implementing program procedures, developing internal controls and accounting protocols, and is in the process of modifying the contract to include all 27 subgrantees, according to a DCA official. Furthermore, DCA plans to award a contract for oversight, training, and technical assistance to subgrantees on the Davis-Bacon wage and reporting requirements.

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## Subgrantees We Visited Generally Met Program Requirements, but We Identified Some Compliance Issues and Control Gaps

DCA and its subgrantees have made good progress in implementing the Weatherization Assistance Program, which has involved navigating multiple new requirements and quick time frames for Recovery Act-funded programs. However, our review identified issues in the following areas:

### Client Eligibility

The 36 client files we reviewed typically contained the eligibility information required by DCA. However, there were exceptions. For example, 23 files were missing some of the required documentation, including proof of a disability (required by DCA for priority services) or a copy of a Social Security card. These problems were not noted by DCA's contract field monitors in client files we reviewed.<sup>11</sup>

### Home Energy Audits

Subgrantees typically followed DCA requirements for home energy audits—used to determine appropriate weatherization as well as health and safety improvements needed—in the 36 client files we reviewed and at three home sites where we observed audits. However, while weatherization work was generally consistent with the priorities established in the audit, in 22 of the 36 client files, we found one or more instances in which work listed as completed was not consistent with audit recommendations. For example, installation of a new hot water heater, refrigerator, or smart thermostat was either recommended in the audit but not done, or done without recommendation. The reasons for these actions were not recorded, as required by DCA policy. When we spoke with subgrantees, they offered reasonable explanations such as changes occurring after an audit, but acknowledged there were inconsistencies and agreed to be more diligent. These inconsistencies also were not noted in the contract field monitors' reports we reviewed. An explanation for some discrepancies, for example, was that two items listed on the audit form—faucet aerators and smart thermostats—were not listed on DCA's form to record completed work. We raised this matter with DCA officials and they agreed to correct this problem.

### Weatherization Work

We found that all work charged to the program was authorized, performed, and appeared to be of acceptable quality in 22 of the 29 homes

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<sup>11</sup>We did not independently verify client income. DCA's income-verification procedures are broad, and DCA officials agreed to reexamine them to address related potential vulnerabilities that may exist.

we visited. For the other 7, work was authorized, but some of the listed improvements were either not completed or lacked quality. For example, at one home recorded as completed in December 2009, the program was charged for a smart thermostat that had not been installed and for solar window screens, some of which were being installed as we were inspecting the home 2 months later in February 2010. The subgrantee said the screens were replacements for those installed improperly.<sup>12</sup> At this same home, the door on a shed built to house a new hot-water heater did not function properly. Yet the homeowner and the subgrantee's inspector had signed the completed inspection form and noted no problems. At another home, the program was charged for three window air conditioning units, but only two had been installed, and for air filters that had not been delivered. One of the window units was not installed tightly enough to prevent air leakage. The seven homes with issues had been inspected by DCA's contract field monitors, who did not note the problems in their reports. The subgrantees agreed to correct the problems we noted.

## Health and Safety

As required by DCA policy, home energy audits performed by the three subgrantees we reviewed covered health and safety issues. However, we found three potential health or safety issues that had not been addressed and that reflected a breakdown in a subgrantee or DCA management control, or both. We alerted the subgrantees and DCA about these issues and they agreed to take appropriate action.

### Air quality

Of 36 inspection files we reviewed, 14 were at one subgrantee, and in 10 of those we found that at the subgrantee's inspection, air flow through the homes was insufficient, possibly affecting indoor air quality.<sup>13</sup> We also found the issue had not been identified in the monitoring reports prepared by DCA's field monitor or by DCA's staff, who had recently completed a review of the subgrantee. The principal research engineer at Florida Solar Energy Center, which provides weatherization training to subgrantee staff throughout Florida, said that in general, when an air flow / ventilation rate

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<sup>12</sup>Based on DCA's policy requirements, this home should not have been reported as a closed case or charged to the program because all work had not been completed and found acceptable.

<sup>13</sup>The extent to which the final air flow readings were below the minimums calculated by the subgrantee varied, ranging from less than 1 percent difference to almost 40 percent. DCA's energy audit form states that the final air flow measurement must be higher than the minimum rate calculated, or work to improve air flow / ventilation must be done.

for a home is found to be below the minimum threshold, a case-by-case assessment should be made on how to address the problem. DCA officials said they would clarify DCA's guidance and explore refresher training or technical assistance on ventilation rates. In addition, DCA officials agreed to require subgrantees to add the minimum ventilation rate for each residence to the work completion report filed with DCA so this requirement can more easily be checked.

### **Electrical hazards and removal of hazardous equipment**

In three of the homes we inspected, we found potential safety hazards. In two of the homes the owners told us their circuit breakers "tripped" when they ran the heat cycle of the window heating and air conditioning units installed by the subgrantees. In one case our inspection identified a window unit that exceeded the limit recommended for shared circuits, at least when turned to heating.<sup>14</sup> Although DCA's energy audit form calls for an assessment of a residence's electrical panel, it does not specifically require a load assessment for planned weatherization work. DCA officials said they would expect subgrantees to do one and would clarify guidelines. The third safety issue involved the subgrantee not removing noncompliant heating units prior to work. The subgrantee installed a window heating and air conditioning unit but had not removed two unvented kerosene heaters from the home.<sup>15</sup> The home's energy audit report noted the unvented kerosene heaters, with the qualification that there was no fuel. When we visited the home, one of the heaters was being used and kerosene storage cans were inside the home. When we noted the violation, the subgrantee agreed to correct the problem. In each of these cases, DCA's contract field monitors had inspected weatherization work in the homes but did not note these problems in their reports. At one of the homes where circuit breakers "tripped", the owner addressed the problem prior to our inspection; at the other, the subgrantee reported taking corrective action in April 2010.

### **Fair and Reasonable Prices**

After our review of three subgrantees, state officials agreed that procurement practices at two of the three subgrantees were not fully

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<sup>14</sup>According to the National Electrical Code, fixed equipment, such as heating/air conditioning units, on a shared circuit should not exceed 50 percent of the circuit's current-carrying rating.

<sup>15</sup>DCA policy prohibits the use of un-vented gas heating units as a primary heating source in a weatherized home, and their use as a secondary heating source unless they meet certain requirements.

consistent with DCA's requirements and raised questions about whether subgrantees always paid prices that were fair and reasonable.<sup>16</sup> These practices also revealed possible gaps in DCA's manual. One of the three subgrantees advertised for competitive, fixed-price bids for labor and materials for weatherization work, but often received only one or two bids and did not have documentation showing a comparison of bid prices to local-market rates to ensure price "reasonableness." Bid packages were not consistently included in client files. Another subgrantee told us they initially advertised for bids for labor and materials, but found the process too cumbersome and negotiated prices with a contractor, rotating work among five firms. We found that the subgrantee also had no documentation showing comparison of prices negotiated to local-market rates, and in some client files we reviewed, the contractor's "bid" price was dated on or after the invoice date. After we brought these problems to their attention, the two subgrantees said they would focus more attention on these contracting issues. DCA's contract field-monitor reports did not note the issue we found in their case file reviews.<sup>17</sup> Regarding competition, the two subgrantees said they were skeptical of being able to get additional bidders due to such reasons as the nature and profit potential of weatherization work compared to other work, the condition or locations of many of the homes to be served, or program requirements such as Davis-Bacon wage provisions. The third subgrantee, which performed weatherization work with in-house staff, told us they used an open, competitive process to get unit-price bids for most of its needed materials, and contracted for an analysis of local labor and materials costs for weatherization work in its service area as well as several other areas in Florida. DCA officials agreed that the comparative approach and information this subgrantee used could be helpful to other subgrantees.

Although we recognize that a variety of factors can affect subgrantees' ability to get competitive bids, the competition and pricing issues do not appear to be sufficiently covered under DCA's current monitoring

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<sup>16</sup>DCA's May 2009 Weatherization Assistance Programs Procedures and Guidelines states that subgrantees are responsible for (1) ensuring that all bids for goods and services contracted are made in a manner to provide, to the maximum extent possible, open and free competition, and (2) determining that costs charged to the program for material and labor are indicative of local rates.

<sup>17</sup>Although the contract field monitor for the first subgrantee said he did not review pricing in his file review, he did note a case during a home inspection in which a weatherization measure had been overpriced. He said the subgrantee recovered the overcharge from the contractor.

program, and its Weatherization Assistance Programs Procedures and Guidelines manual does not call for review and approval of subgrantees' acquisition policies and procedures. We believe that the manual does not explain DCA's expectations in situations with no or limited competition or how subgrantees should document their determination that the prices obtained are indicative of local rates. DCA officials agreed to address the concerns we noted.

In commenting on the overall results of our review, DCA said that many of the concerns or areas of non-compliance we noted have been addressed by issuance of a program notice to subgrantees or by a state monitor. In addition, when we raised our concern that contract field monitors had apparently missed a number of the weatherization issues we identified, DCA said that they planned to take various other actions, such as revising to its program and field monitoring procedures and guidelines, to address several of the issues we had raised, and that these issues would be discussed at its annual statewide meeting of subgrantees in May 2010.

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## Florida Public Housing Agencies Obligated Recovery Act Funds by Deadline, and Those We Visited Had Internal Control Policies

According to U.S. Department of Housing and Urban Development (HUD) officials, all Florida public housing agencies met the March 17, 2010 Capital Fund formula grants deadline for Recovery Act funds by either obligating all of their funds or rejecting or returning a portion of their grant funds by March 17, 2010. Grant funds are intended to improve the physical condition of public housing properties. Of 110 public housing agencies in Florida, 82 eligible agencies collectively received about \$86 million in Recovery Act Capital Fund formula grants. Prior to this deadline, 2 of the 82 eligible agencies returned some or all of their funds—totaling about \$194,000—to HUD.<sup>18</sup> As of March 17, 2010, the recipient agencies had drawn down a cumulative total of \$29.7 million from the obligated funds. HUD reports that recipient agencies are using Recovery Act funds to make improvements to almost 2,900 public housing units in Florida.

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<sup>18</sup>According to HUD officials, the two public housing agencies returning funds received Recovery Act Capital Fund formula grants based on having qualified housing units. However, one public housing agency demolished its units and was not able to initiate work on developing new units by the obligation deadline; the other used part of its funds to demolish its existing units and returned the remaining funds.

The four agencies we selected received approximately 8 percent of total Recovery Act Capital Fund formula grants to Florida. Table 3 shows the obligations, expenditures, and types of projects undertaken.

**Table 3: Recovery Act Capital Fund Recipient Obligations and Expenditures as of March 17, 2010**

Public housing agencies	Recovery Act Capital Fund grants	Funds obligated by the agencies by March 17 deadline	Funds drawn down by agencies by March 17 <sup>a</sup>	Recovery Act-funded projects at selected housing agencies
All eligible Florida public housing agencies	\$85,505,627	\$85,311,543	\$29,687,265	
Orlando Housing Authority	3,582,587	3,582,587	2,442,183	Soil abatement, demolition of a building, and various smaller projects including removing clothesline poles and rehabilitating a children's spray pool.
Sarasota Housing Authority	1,132,916	1,132,916	111,744	Redevelopment, including kitchen renovation in 100 units; painting; installing energy efficient, hurricane-resistant windows; and, energy-efficient mini-split air conditioning units.
The Housing Authority of the City of Lakeland	1,457,334	1,457,334	59,137	Total rehabilitation of 20-unit building with "green" standards.
Pasco County Housing Authority	383,805	383,805	21,053	Various management improvements and deferred maintenance, such as kitchen renovations, resurfacing of roads, erosion control, irrigation, installing water heaters and rear screen doors, and making one vacant unit handicap accessible.

Source: HUD and public housing agencies.

<sup>a</sup>Funds must be completely expended by March 17, 2012.

Officials at three of the four public housing agencies we visited said Recovery Act funds allowed them to complete planned projects sooner than planned, broaden the work's scope or complexity, or avoid staff layoffs. For example, Lakeland officials said Recovery Act housing funds will allow them to complete rehabilitation of housing units this year rather

than over several years, including improvements to receive gold certification as an energy-efficient or “green” building.<sup>19</sup>

Officials we visited also identified various challenges to quickly obligating Recovery Act funds, including difficulties in combining funds from multiple federal sources, identifying projects with appropriate timelines for Recovery Act spending, creating policies required by the Recovery Act,<sup>20</sup> and identifying additional projects when contract bids on some planned projects came in under the agency’s cost estimates. Officials also identified reporting challenges, including accessing systems and establishing passwords in three required reporting databases. Agency and HUD officials said that efforts to quickly obligate Recovery Act Capital funds did not interfere with their administration of regular Capital Fund grants. Officials at the agencies credited the staff at Miami and Jacksonville HUD field offices with providing timely and helpful technical assistance and outreach.

Our review of internal controls documentation of the four public housing agencies we visited found each had written internal control policies for procurement and various financial policies detailing separation of duties and approvals required for specific expenditure levels. In addition, limited testing of Orlando’s internal control over certain financial transactions and the agency’s compliance with certain Recovery Act requirements found no material issues.<sup>21</sup> However, the Orlando agency’s financial policy states that contractors must accompany payment requests with certain HUD and agency forms even though officials said the forms are actually required only for contracts lasting over 30 days and valued at more than \$100,000. We suggested officials clarify the procedure in its financial policy, and they agreed to this revision.

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<sup>19</sup>The Leadership in Energy and Environmental Design (LEED) Green Building Rating System certifies that a building was designed and built for sustainability and energy efficiency. It has 4 levels: certified, silver, gold, and platinum.

<sup>20</sup>The Recovery Act required public housing agencies to comply with provisions not required for the regular Capital Fund grant, such as the “Buy American” provision.

<sup>21</sup>We selected 12 of 23 transactions (non-salary/non-benefit) related to the Recovery Act Capital Fund formula grant, which represented about 93 percent of the total dollar value of transactions, available as of March 8, 2010. We reviewed whether the transactions were allowable and adequately supported by documentation, such as approved invoices and whether payments were made to approved vendors.

In addition to our work, in September 2009 HUD's Office of Inspector General issued an audit that identified several internal control weaknesses and provided recommendations to strengthen the Miami-Dade Housing Authority's controls over administering Recovery Act funds to carry out capital and management activities.<sup>22</sup> For example, the Inspector General found the agency's procurement procedures had weaknesses, such as not maintaining sufficient records detailing the history of the process followed for each contract, and had not properly prioritized its Recovery Act-funded activities. According to HUD officials, recommendations contained in the report were addressed by March 9, 2010, and the Miami-Dade Housing Authority obligated all of its Recovery Act funds by the March 17, 2010 deadline.

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## Florida Successfully Met Contracting Deadline for Drinking Water and Clean Water Projects

Florida officials told us they successfully met the Recovery Act's February 17, 2010 deadline for having Drinking Water and Clean Water projects under contract.<sup>23</sup> Florida's Department of Environmental Protection (DEP) received more than \$88 million in Recovery Act funds for its Drinking Water State Revolving Fund (SRF) projects and more than \$132 million for its Clean Water SRF projects in federal fiscal year 2009.<sup>24</sup> These additional Recovery Act funds were three times larger than the state's 2009 federal base grants for Drinking Water and five times its Clean Water federal base grants. A DEP official in charge of the SRF program funding said Recovery Act funds helped pay for 40 Drinking Water and 28 Clean Water projects. (See figure 3.)

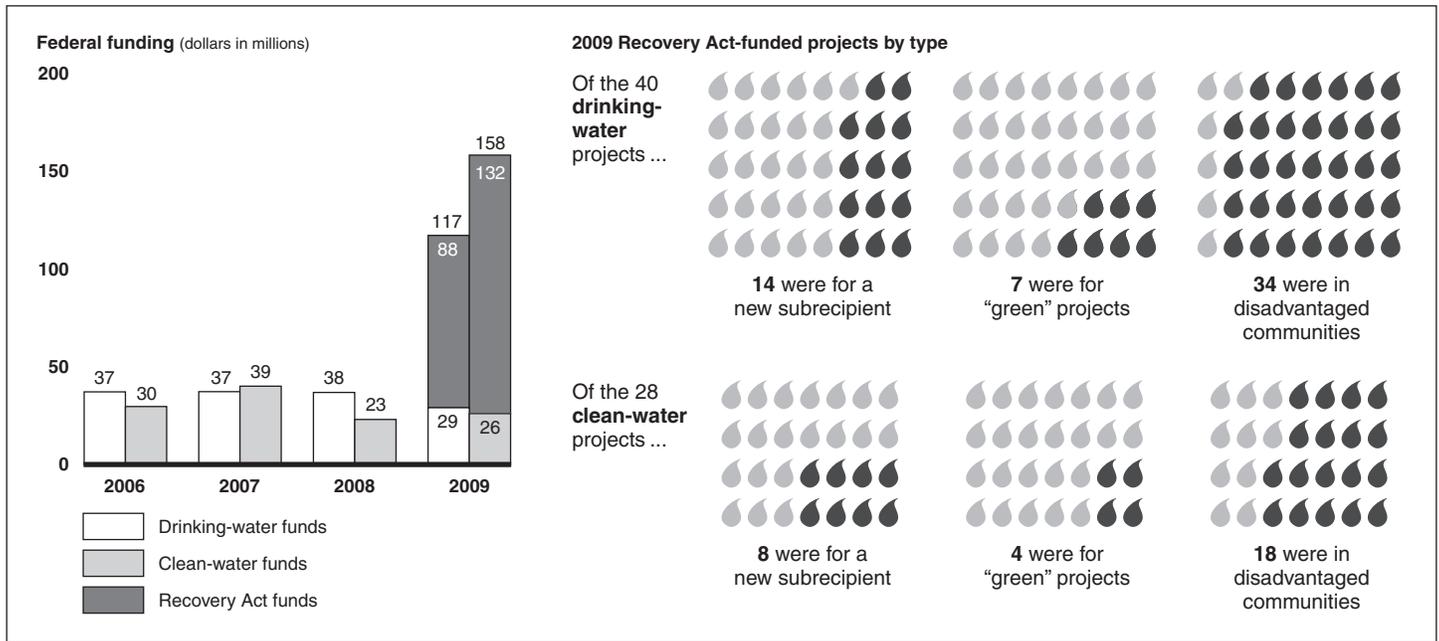
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<sup>22</sup>HUD, Miami-Dade Public Housing Agency Needs to Strengthen Controls over Its American Recovery and Reinvestment Act Funds, Audit Memorandum No.: 2009-AT-1801 (Atlanta, GA, Sept. 25, 2009).

<sup>23</sup>Drinking Water funds are used for drinking-water infrastructure projects and Clean Water funds are used for wastewater, storm water, and non-point source infrastructure projects.

<sup>24</sup>Florida did not use all of the Recovery Act funds for its Drinking Water SRF to fund projects. As allowed under amendments to the Safe Drinking Water Act (SDWA), the state used a part of its funds to support various non-infrastructure activities which have public health benefits and assist in compliance with SDWA, such as technical assistance to small systems.

**Figure 3: Total Florida State Revolving Fund (SRF) Levels for Fiscal Years 2006-2009 and Number and Types of Projects Funded by Recovery Act Money in Fiscal Year 2009**



Source: GAO analysis of data from EPA and state, and information from state DEP officials.

Note: Subrecipients are generally counties and cities. A new subrecipient is an entity that had not previously received SRF funds. Under the Recovery Act, green projects include those that promote green infrastructure and energy or water efficiency, as well as projects that demonstrate new or innovative ways to manage water resources in a sustainable way.

State officials told us they used existing systems for ranking projects for projects to be funded with Recovery Act funds.<sup>25</sup> However, they said they were sometimes overwhelmed by the number of documents to review and prioritize. A DEP official said department employees had to review \$950 million in Drinking Water project applications and \$1.5 billion in Clean Water project applications from localities to award \$88 million and \$132 million, respectively.

<sup>25</sup>Priority is given to those Drinking Water projects that address the most serious risks to human health, ensure compliance with federal and state drinking-water regulations, and assist systems most in need on a per household basis (affordability). Clean water projects are given priority according to the extent each project is intended to remove, mitigate, or prevent adverse effects on surface or ground water quality and public health.

Subrecipients we spoke with reported taking additional steps to meet state and Recovery Act requirements. In North Miami Beach, officials said they took additional steps to meet state contracting requirements when they only received one bid.<sup>26</sup> To ensure the procurement process yielded a reasonable price for its Drinking Water SRF contract to remove vinyl chloride from city wells, the city used its consultants to compare prices in the bid to market prices. DEP reviewed the city's required cost analysis to determine whether prices were fair and reasonable and approved the project. City water officials said that without Recovery Act funds they would not have proceeded because the project's costs had the potential to increase user rates to pay for the new debt needed for the project.<sup>27</sup> The city of Stuart also took additional steps to ensure its Clean Water SRF project met Recovery Act requirements. Stuart is using SRF funds to reclaim wastewater to irrigate athletic fields, which helps preserve its drinking water. A city official expressed concern about the required Buy American certification of one project contractor, but after numerous conversations, the city official concluded that because the filter components were incorporated during the fabrication of the filter in Dayton, Ohio, it met this Recovery Act provision.

State officials also told us about a Buy American issue in Vero Beach. The city installed 600 feet of foreign-made steel casing based upon early Environmental Protection Agency (EPA) Buy American guidance that officials said was unclear. The city's consulting engineer told us she received conflicting guidance, with DEP initially telling the engineer that the city could forgo the use of U.S.-made steel if the cost exceeded the cost of foreign-made steel by more than 25 percent. The engineer said EPA guidance later clarified that foreign-made components could only be used in Recovery Act projects if American products, such as steel, increased the total cost of a project by more than 25 percent. DEP replaced the project's Recovery Act funding with base SRF funding not subject to the Buy American provisions to cover the cost of the project.

Florida officials told us they added new Recovery Act requirements and procedures for its SRF to ensure they met the Davis-Bacon, Buy American, and Recovery Act reporting provisions. According to officials in North

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<sup>26</sup>In cases with only one bid, officials said the state requires subrecipients to evaluate the specific elements of proposed costs and profits.

<sup>27</sup>An estimated \$2.5 million of the \$3.0 million Recovery Act loan is in the form of principal forgiveness, meaning the city does not have to pay back these funds.

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Miami Beach and Stuart, they also established procedures for project oversight and monitoring per Recovery Act requirements. For example, North Miami Beach checks Davis-Bacon wage rates when the contractor submits weekly certified payrolls.

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## Florida Uses Recovery Act Funds to Address Budget Gaps While Localities Mainly Use Funds for Nonrecurring Expenses

Florida officials project a slight improvement in the state's fiscal condition based on revenue projections for the current fiscal year (2009-2010), but they expect the state's economy may take a long time to recover fully. State officials said revenue trends have stabilized due to a moderate increase in the general revenue fund resulting from increases to driver's license, motor vehicle, and court fees approved by the state legislature in 2009. Officials are not anticipating a budget shortfall this fiscal year and expect about a \$1.1 million surplus in general revenue to carry forward to the next fiscal year, which begins July 1, 2010. As we have reported, Florida's efforts to reduce expenditures and increase revenues are expected to offset the substantial decrease in Recovery Act funds beginning in 2011.<sup>28</sup> However, Florida's unemployment rate is 12 percent. And population growth—a driver of Florida's economic growth—is projected to remain relatively flat over the next few years, while revenue collections are still billions of dollars less than before the recession.

For the state's fiscal year 2010-2011, Florida budget officials said the Governor proposed using \$2.5 billion in Recovery Act funds for education, health and human services, transportation, and general government operations. The legislature passed the budget in late April 2010, but according to state officials the final budget, pending the Governor's review and approval, has not been signed as of early May 2010. Officials said Recovery Act funds have not eliminated, but have limited, the need to use reserves to balance the state's general fund budget. Florida may need to reduce expenditures further when Recovery Act funds substantially decrease beginning in fiscal year 2011; however, officials said shortfalls might be offset by a state-projected increase in revenues.

To examine the use and effect of Recovery Act funds on local budgets, we selected two localities: one city, Orlando, and its county, Orange County. Officials in both localities said Recovery Act funds have been used mainly

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<sup>28</sup>GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Appendixes)*, [GAO-09-1017SP](#) (Washington, D.C.: Sept. 2009).

for short-term strategies to provide services to communities.<sup>29</sup> Overall, Recovery Act funding contributed a small percentage of the city’s and county’s budgets: Orlando’s \$9.6 million and Orange County’s \$22.1 million in Recovery Act funds—which will be received over multiple years—account for a small fraction of the 2009-2010 operating budgets of about \$360 million and \$748 million for Orlando and Orange County, respectively. The program area receiving the largest amount of funding in Orlando is public safety at \$5.4 million and in Orange County is energy efficiency at \$8.7 million. (See table 4.)

**Table 4: Recovery Act Grants and Contracts to Orlando and Orange County, Fiscal Years 2009-2012**

Program area	Orlando project or federal award	Orange County project or federal award
Energy efficiency	Energy Efficiency and Conservation Block Grant used for a city facility and privately-owned residences. \$2.7 million over 3 years	Energy Efficiency and Conservation Block Grant and Weatherization Assistance Program to reduce fossil fuel emissions and energy use. \$8.7 million over 3 years
Housing	Homeless Prevention and Rapid Re housing Program for housing expense assistance and Community Development Block Grant for installation of under-drains. \$1.5 million over 3 years	Homeless Prevention and Rapid Re-housing Program for housing expense assistance and Community Development Block Grant for energy-efficiency initiatives. \$4.2 million over 3 years
Human services	Not applicable	Head Start for teacher training and Community Services Block Grant to provide employment-related services to low-income communities. \$2.1 million over 1 year
Public safety	COPS Hiring Recovery Program (CHRP)(salaries of officers) <sup>a</sup> ; Edward Byrne Memorial Justice Assistance Grant for activities such as purchasing portable radios and tasers; and STOP Violence Against Women to address domestic violence. \$5.4 million over 1 to 4 years	Edward Byrne Memorial Justice Assistance Grant for substance abuse treatment and equipment purchases including laptop computers and digital radios. \$7.1 million over 1 to 4 years
<b>Total Recovery Act funding</b>	<b>\$9.6 million over multiple years</b>	<b>\$22.1 million over multiple years</b>

Source: GAO analysis of federal and state data.

<sup>29</sup>City and county Recovery Act funds referred to in this section include only funds administered by city and county governments and not the full scope of Recovery Act funds—including unemployment insurance, Medicaid, and highways—that benefit city and county residents. For example, Recovery Act highway funds are being used in Orlando and Orange County that total \$3.8 million and \$12.9 million, respectively.

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<sup>a</sup>Although the city and county are generally using funds for nonrecurring expenses, Orlando is using about \$3.1 million in CHRP funds over the 3 years in which funds are available to restore 15 of 29 sworn police officer positions eliminated from the current year budget, 2009-2010. CHRP requires grantees to fund the positions with state or local funds, or both, for a fourth year. City officials said that they are currently formulating strategies to retain the positions after CHRP funding is no longer available.

Given that local officials said Recovery Act funds have generally not been used to balance localities' budgets, city and county officials explained they have taken several actions to address continuing budget gaps, including eliminating vacant positions, freezing hiring, cutting department budgets, and using reserves. Officials in Orlando said that although they have used general fund reserves to balance the budget for fiscal years 2008-2009 and 2009-2010, reserve balances are currently at maximum required levels.<sup>30</sup>

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## Florida Officials Expressed Concerns about Recipient Reporting and Single Audit Project While State Continues to Provide Oversight

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### Florida Recovery Czar Voiced Concerns about Double Counting of Recipient Reports

The state Recovery Czar said the second and third rounds of recipient reporting appeared to go more smoothly than the first round. He did express concern that funding awarded to Florida posted on Recovery.gov, the federal government's Web site to track Recovery Act spending nationwide, overstated awards by about \$463 million for the first- and second-round of recipient reports covering the period February 17, 2009 through December 31, 2009. For example, his analysis of second-round

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<sup>30</sup>City and county officials explained that Central Florida has been affected by the economic downturn, including high numbers of foreclosures, decreased home values, and a related drop in property-tax revenues. This revenue accounts for about 30 percent and 50 percent of the general fund in Orlando and Orange County, respectively. In Orlando, the 2009 median home value was \$130,000 compared with \$220,000 in 2008, and foreclosures have risen to about 31,000 in 2009 compared to an average of 3,000 to 4,000 prior to 2008, officials stated. In addition, a decline in tourism decreased sales-tax revenues because hotel occupancy rates dropped, officials said.

data found that some first- and second- round reports were treated as separate projects but should have been linked, resulting in double counting of awards and overstating total Recovery Act funds awarded to Florida.<sup>31</sup> According to the Recovery Accountability and Transparency Board (the Board), which manages Recovery.gov, federal agencies could assign different award identifiers from one round to the next, and the Recovery Czar said when dollar amounts were summed for Recovery.gov, it resulted in double counting of some amounts reported. In our March 2010 report, we raised similar concerns about the quality of the data reported.<sup>32</sup> OMB, the Board, and federal program agencies are working to resolve this issue and have taken steps to minimize this issue for round three.<sup>33</sup>

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### Recipients We Visited Generally Met Reporting Requirements, but We Identified Job Calculation Gaps

We found that the full-time equivalent (FTE) calculations done by the local educational agency (LEA) and a public institution of higher education (IHE) we visited were adequately supported by documentation and were computed in accordance with federal guidance during the third round of Recovery Act reporting.<sup>34</sup> However, we identified issues at a public housing agency, which reports on its funds directly, not through Florida's centralized system.<sup>35</sup> At the LEA and IHE we found that the number of jobs reported for the third round was calculated in accordance with OMB guidance and consistent with the FTE calculation method used in the previous round. Documentation maintained by these entities also

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<sup>31</sup>Florida has a centralized system into which all 17 state agencies report, then the information is uploaded to the federal system, FederalReporting.gov.

<sup>32</sup>GAO, *Recovery Act: One Year Later, States' and Localities' Uses of Funds and Opportunities to Strengthen Accountability*, [GAO-10-437](#) (Washington, D.C.: Mar. 3, 2010).

<sup>33</sup>In the third reporting period ending March 31, 2010, the Recovery Czar said he has identified a total of 188 potentially erroneous Recovery Act fund awards—awarded to Florida through federal and state agencies—listed with mismatched identifiers that were double counted and with other types of errors.

<sup>34</sup>At the LEA, there was enough documentation to support the reported numbers for the specific grant we reviewed, with the exception of an immaterial variance of .90 of an FTE for Title I grant funds, which the LEA identified and plans to adjust in the next quarterly report, ending June 30th.

<sup>35</sup>Public housing agencies, as prime recipients do not report to the Florida system because they receive Recovery Act funding directly from a federal agency and not through a state agency.

supported the number of jobs reported for the third round.<sup>36</sup> In contrast, at the public housing agency we identified errors in data collection and reporting of jobs created and retained for the second and third rounds. A housing agency official said a change in executive management in November 2009 resulted in confusion about how to meet recipient reporting requirements. OMB and HUD guidance requires that an agency collect hours worked from the contractors and calculate jobs created and retained based on an FTE formula. However, officials at the public housing agency said they did not collect hours worked from their two contractors in the second round and instead repeated the numbers from the first round. In addition, we found that for the third round of reporting, the two contractors counted each part-time worker as a full-time worker instead of reporting hours worked as required for FTE computation. Although the housing agency is responsible for ensuring that jobs are reported based on FTEs, an official said they reported the job numbers provided by the contractors and did not follow up with the contractors to confirm their job calculations. Furthermore, although the agency also maintains hourly payroll data submitted by the contractors, the official said they did not verify that the payroll data matched the number of FTEs reported by the contractor. We discussed these issues with the public housing agency official and he said that he agreed with our finding and planned to revise the recipient report for round three.

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**Florida Officials Involved  
in Single Audit Project  
Expressed Concerns about  
Its Usefulness**

OMB implemented a Single Audit Internal Control Project (project) in October 2009. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, significant internal control deficiencies were to be reported to management and federal officials 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits. Sixteen states volunteered for the project including Florida, whose auditors issued their interim reports on

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<sup>36</sup>OMB now defines FTEs to be reported under section 1512 of the Recovery Act as the total number of hours worked and funded by Recovery Act dollars within the reporting quarter divided by the quarterly hours in a full-time schedule.

internal control for selected major Recovery Act programs by December 31, 2009.<sup>37</sup>

Most of the Florida officials we spoke with expressed concerns about the project's usefulness. According to the Auditor General's office, the project added additional reports to the typical audit cycle and may have delayed completion of audits for some programs. The additional reporting resulted in some duplication, such as duplicated exit discussions of findings with program managers. The Auditor General also indicated that absent an interim report, an audited entity would still be aware of any issues due to ongoing discussions with Auditor General staff. His view was echoed by one state program manager. A state manager from another program noted that the short time frames associated with interim reporting resulted in the need to revise an audit finding, which took additional time. The Auditor General's office said interim reporting may be more helpful for federal agencies than it is to state agencies given that ongoing discussions between the state auditor and program management occur at the state level. One state program manager said receiving interim audit recommendations did allow for earlier implementation of agency financial improvements.

Improvements to the Single Audit process suggested by the Auditor General's office included providing more timely guidance, for example, in February of the year to be audited, to facilitate planning, and allowing auditors more flexibility in identifying major programs and reporting findings of significance.

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<sup>37</sup>The following 16 states volunteered to participate in the project: Alaska, California, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia.

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## State Oversight Agencies Continue to Play Oversight Role for Recovery Act Funds

Various Florida state agencies provide oversight of Florida's spending of Recovery Act funds, as we have previously reported.<sup>38</sup> The Auditor General's work related to the Recovery Act is primarily being conducted under the Single Audit Act. For the fiscal year ended June 30, 2009, the Auditor General conducted Single Audits of state governments and numerous school district boards that included Recovery Act funds. For example, in the Single Audit of state government, the Auditor General found that the Florida Department of Education (FDOE) had not implemented certain information-technology controls governing cash-management practices, which FDOE agreed to address. In addition to focusing on training, technical assistance, and risk assessments, Florida's Chief Inspector General said the inspector general (IG) community is at different stages in its review of Recovery Act programs, depending on factors such as workload and timing of when Recovery Act funds are used by recipients and subrecipients. For example, the Inspector General of the Florida Department of Community Affairs (DCA) is in the process of reviewing the weatherization program, but her work has been delayed due to staffing issues. However, according to the Inspector General for the Florida Department of Law Enforcement, it reviewed supporting documentation for selected subrecipients and found some discrepancies in the number of jobs and or hours reported.<sup>39</sup>

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<sup>38</sup>GAO has previously reported that Florida has various agencies responsible for monitoring, tracking, and overseeing financial expenditures, assessing internal controls and ensuring compliance with state and federal laws and regulations that include the Office of the Chief Inspector General, Auditor General, and the Department of Financial Services. Also, each state agency has an Office of Inspector General responsible for conducting audits and investigations and providing technical assistance. The Auditor General has broad audit authority in Florida and routinely conducts Single Audits. The Florida Department of Financial Services is responsible for settling the state's expenditures and reporting financial information. Independent certified public accountants also conduct annual financial audits of local government entities. GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: December 2009); [GAO-09-1017SP](#); *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses (Appendixes)*, [GAO-09-830SP](#) (Washington, D.C.: July 2009); and, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, [GAO-09-580](#) (Washington, D.C.: Apr. 23, 2009).

<sup>39</sup>The Inspector General plans to select subrecipients of various grants for review each quarter.

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## State Comments on This Summary

We provided the Special Advisor to the Governor of Florida, Office of Economic Recovery (who is referred to in this appendix as the Czar), with a draft of this appendix on May 7, 2010. In general, the Florida state official agreed with our draft and provided some clarifying information, which we incorporated, as appropriate.

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## Staff Acknowledgments

In addition to the contacts named above, Michael Armes, Susan Aschoff, Patrick di Battista, Lisa Galvan-Trevino, Cheri Harrington, Sabur Ibrahim, Kevin Kumanga, Frank Minore, Brenda Ross, Margaret Weber, and James Whitcomb made major contributions to this report.

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# Appendix VI: Georgia

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## Overview

The following summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Georgia.<sup>1</sup> The full report on our work, which covers 16 states and the District of Columbia, is available at <http://www.gao.gov/recovery>.

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## What We Did

We reviewed these programs funded under the Recovery Act—the Weatherization Assistance Program, the Clean and Drinking Water State Revolving Funds, the Public Housing Capital Fund, and the Tax Credit Assistance and Section 1602 Tax Credit Exchange Programs. We looked in more depth at the Weatherization Assistance Program because the Recovery Act funds were a large increase over Georgia's annual allocations and work had been under way for several months. We began work on the Clean and Drinking Water State Revolving Funds and continued work on the Public Housing Capital Fund because key Recovery Act deadlines passed during the review period. We began work on the Tax Credit Assistance and 1602 Tax Credit Exchange Programs—which provide capital investments in low-income housing tax credit projects—because significant Recovery Act funds had been obligated. For descriptions and requirements of the programs covered in our review, see appendix XVIII of [GAO-10-605SP](#). Finally, we focused on the use of Recovery Act funds by selected localities and the state's efforts to ensure accountability over funds.

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## What We Found

Following are highlights of our review.

- **Weatherization Assistance Program.** The U.S. Department of Energy (Energy) allocated about \$125 million in Recovery Act weatherization funding to Georgia for a 3-year period. As of the end of March 2010, the 22 contracted service providers in the state had completed 1,538 (about 11 percent) of the 13,617 homes to be weatherized with these funds by March 2012. The state has taken a number of steps to increase production, including providing additional training for new weatherization workers. While monitoring has been slow to start, the state has taken measures to address deficiencies we identified in providers' procedures for determining client income eligibility and prioritizing work.

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

- **Clean and Drinking Water State Revolving Funds.** The Environmental Protection Agency (EPA) allocated about \$122 million in Recovery Act funding to Georgia for the Clean and Drinking Water State Revolving Funds. The state used most of these funds to provide assistance to 59 projects. It reserved 21 percent of its Clean Water funds and 22 percent of its Drinking Water funds for green projects (such as those that increase energy or water efficiency) and ensured that subrecipients entered into construction contracts by February 17, 2010.
- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development (HUD) allocated about \$113 million in Recovery Act funding to 184 public housing agencies in Georgia to improve the physical condition of their properties. As of May 1, 2010, these agencies had obligated all of their funds and drawn down about \$35 million. All met the Recovery Act requirement to obligate their funds within 1 year of the date they were made available.
- **Tax Credit Assistance and Section 1602 Tax Credit Exchange Programs.** Georgia received about \$54.5 million in Tax Credit Assistance Program funds and approximately \$195.6 million in Section 1602 Tax Credit Exchange Program funds. As of April 30, 2010, the state had committed \$184.3 million (about 74 percent) under both programs for 31 projects, including the rehabilitation of 300 units for the elderly and persons with disabilities in Atlanta, Georgia, and the construction of 52 units for persons over age 55 in Sandersville, Georgia. The state expects to commit the remainder of its funds by June 2010.
- **Selected localities' use of Recovery Act funds.** DeKalb County, the City of Savannah, and the City of Albany had been awarded \$25.4 million, \$9.6 million, and \$5.9 million, respectively, as of May 4, 2010. These localities received funds for purposes ranging from improving energy efficiency to hiring police officers.
- **Accountability efforts.** The State Auditor participated in the U.S. Office of Management and Budget's (OMB) Single Audit Internal Control Project, which required earlier communication of significant deficiencies and material weaknesses in internal controls over Recovery Act funds. The resulting report identified several deficiencies at the Georgia Department of Transportation that the department has implemented changes to address. Further, the State Inspector General investigated two Recovery Act complaints, and several internal audit

departments have plans to audit or are already auditing Recovery Act funds.

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## Georgia Has Been Taking Steps to Increase Production in the Weatherization Assistance Program and Address Program Deficiencies

Under the Recovery Act, the Georgia Environmental Facilities Authority (GEFA), the agency that administers the Weatherization Assistance Program, will receive approximately \$125 million to weatherize 13,617 homes by March 2012.<sup>2</sup> Energy approved Georgia's weatherization plan on June 26, 2009, for the period April 1, 2009, through March 31, 2012. GEFA awarded contracts to 22 service providers—community action agencies, nonprofit agencies, or local governments—which were in place prior to the Recovery Act. We visited three providers—the City of Albany (Albany), Economic Opportunity Authority for Savannah-Chatham County Area, Inc. (EOA-Savannah), and Ninth District Opportunity, Inc. (Ninth District).<sup>3</sup>

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## Although Production Has Increased in Recent Months, Georgia's Recovery Act Weatherization Program Has Not Met Goals

As of the end of March 2010, 1,538 homes (about 11 percent) had been weatherized and about \$15.3 million of the \$99.7 million awarded to service providers (about 15 percent) had been spent.<sup>4</sup> In March 2010, providers weatherized 370 units, below the monthly production goal of about 500 homes (see fig. 1). Although Georgia did not meet this goal, Energy asked the state to increase its monthly production to 700 units from April through September 2010.

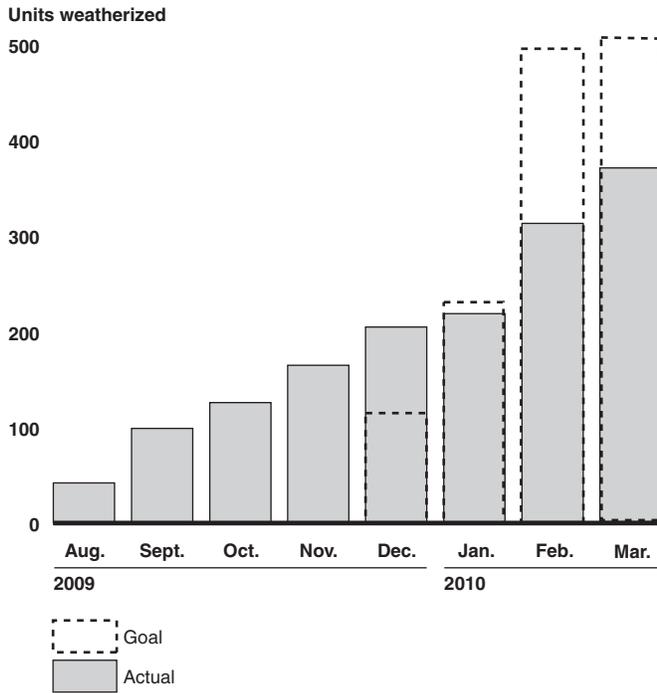
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<sup>2</sup>The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which Energy is distributing to each of the states, the District, and seven territories and Indian tribes, to be spent by March 31, 2012. This program enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment.

<sup>3</sup>Ninth District Opportunity, Inc. is located in Gainesville, Georgia. We selected these three providers based on their location, the size of the weatherization program, and progress as of the end of January 2010.

<sup>4</sup>GEFA will use the balance of the \$125 million allocation for monitoring, training, and technical assistance, among other things.

**Figure 1: Homes Weatherized in Georgia, August 2009 through March 2010**



Source: GEFA.

Progress made by individual providers varied. Four providers, including the three largest, had completed 5 percent or less of their targeted number of homes as of the end of March 2010. The highest rate was 21 percent. Table 1 shows the percentage of funds spent and homes weatherized by all 22 service providers, as of the end of March 2010.

Table 1: Percentage of Funds Expended and Homes Weatherized by Service Provider, as of the end of March 2010

Service provider	Counties served	Contract amount	Percentage drawn down	Homes to be weatherized	Homes weatherized through March	Percentage of homes weatherized
Coastal Plain Area Economic Opportunity Authority, Inc.	10	\$4,886,875	18%	590	125	21%
Tallatoona Community Action Partnership, Inc.	6	4,103,205	25	563	119	21
EOA for Savannah-Chatham County Area, Inc.	1	2,743,978	12	371	76	20
West Central Georgia Community Action Council, Inc.	8	2,448,384	23	336	63	19
Southwest Georgia Community Action Council, Inc.	14	5,469,280	17	753	140	19
Concerted Services, Inc. – Waycross	8	3,455,919	23	478	78	16
Middle Georgia Community Action Agency, Inc.	12	6,358,846	22	870	130	15
Concerted Services, Inc. – Reidsville	9	4,163,318	19	574	83	14
Heart of Georgia Community Action Council, Inc.	9	2,764,125	21	379	54	14
Coastal Georgia Area Community Action Authority, Inc.	6	3,384,006	30	468	66	14
Clayton County Community Action Authority, Inc.	3	3,250,251	11	452	56	12
North Georgia Community Action, Inc.	10	5,471,460	9	752	91	12
City of Albany	1	1,546,104	15	209	25	12
Overview, Inc.	7	2,463,271	21	340	38	11
Area Committee to Improve Opportunities Now, Inc.	10	5,010,500	13	687	70	10
Partnership for Community Action, Inc.	3	6,926,773	8	956	92	10
Gwinnett County Board of Commissioners	1	3,284,888	7	461	44	10
Community Action for Improvement, Inc.	6	4,138,220	16	569	44	8
Central Savannah River Area EOA, Inc.	13	7,000,302	12	962	50	5
Enrichment Services Program, Inc.	8	3,758,994	11	512	25	5
Southeast Energy Assistance	1	8,196,838	16	1,112	40	4

Service provider	Counties served	Contract amount	Percentage drawn down	Homes to be weatherized	Homes weatherized through March	Percentage of homes weatherized
Ninth District Opportunity, Inc.	14	8,837,469	9	1,223	29	2
<b>Total</b>	<b>160</b>	<b>\$99,663,006</b>	<b>15%</b>	<b>13,617</b>	<b>1,538</b>	<b>11%</b>

Source: GAO analysis of GEFA data.

Note: Georgia has 159 counties. However, both Albany and Southwest Georgia Community Action Council, Inc. serve portions of Dougherty County.

Weatherization work has been delayed for a variety of reasons. GEFA officials explained that work has been delayed at the largest providers primarily because of the need to hire and train new crews. GEFA is coordinating training for all of the providers and has contracted out its Recovery Act training.<sup>5</sup> As of early April 2010, the contractor had offered 16 training classes to about 300 students.<sup>6</sup> However, GEFA officials explained that there was still an unmet need for training. The large provider we visited explained that delays were due to changes in the way services were provided. To help meet the increased Recovery Act production targets, Ninth District officials began contracting out services that it had previously performed using in-house crews. They are still refining their contracting procedures, but expect them to be fully implemented by June 2010.

According to GEFA officials, they have taken steps to increase production. First, GEFA has encouraged its training contractor to add classes and required at least one person from each provider to be trained to help provide on-the-job training to new staff. The contractor also plans to visit each provider to offer on-site technical assistance. Second, GEFA required each provider to create a monthly production plan. Third, it modified the

<sup>5</sup>GEFA contracted with Southface Energy Institute—a nonprofit that promotes comfortable, energy-, water-, and resource-efficient homes, workplaces, and communities—to provide training to weatherization workers.

<sup>6</sup>At the end of each class, each student must pass a written exam. Members that fail portions of the classes are given remedial instruction by GEFA or are limited in the work that they can undertake until they successfully pass the course.

providers' contracts to include actions it could take if the provider did not meet production goals or work quality standards.<sup>7</sup>

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### GEFA Expanded its Planned Oversight of the Weatherization Program, but Has Been Slow to Start Monitoring

GEFA has expanded its oversight of the Recovery Act Weatherization Assistance Program by hiring a senior program manager and fiscal monitor, buying a new Web-based reporting tool, and hiring contractors for field and desk monitoring. The senior program manager works with providers and ensures compliance with contracts, regulations, and program goals. The fiscal monitor will visit each service provider to review policies, practices, and internal controls; examine invoices and payroll records; and identify problems. As of April 2, 2010, the fiscal monitor had conducted three site visits. GEFA officials expect a new Web-based reporting tool for managing weatherization assistance programs, which will provide real-time information on production and energy savings and standardized reporting, to be in place by July 2010. Currently, GEFA relies on monthly paper reports.

GEFA also has contracted with the University of Georgia Cooperative Extension (UGA) for program oversight to be conducted by 26 monitors—13 desk monitors and 13 field monitors.<sup>8</sup> Prior to the Recovery Act, GEFA's goal was to visit providers once a year. For the Recovery Act program, UGA's desk and field monitors are to conduct weekly visits to each provider to review file documentation and inspect at least 10 percent of individual projects each month.<sup>9</sup> However, monitoring did not start until March 2010, and 5 of the 26 positions were vacant as of April 1, 2010.

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<sup>7</sup>According to GEFA officials, if a sub-grantee is not meeting production goals and/or work quality standards GEFA may: (1) allow the recipient to continue operations at the existing funding level and thereafter conduct weekly performance reviews; (2) reduce the funding level for the recipient and provide unexpended dollars to another sub-grantee; (3) require the sub-grantee to select a nonprofit delegate in cooperation and with assistance from GEFA to meet production goals in a specified time frame; or (4) reduce the funding to the sub-grantee and provide the dollars on a competitive basis to a qualified nonprofit to serve the defined geographic territory.

<sup>8</sup>The Cooperative Extension provides research-based education in agriculture, the environment, communities, and youth and families, and has the ability and authority to conduct monitoring.

<sup>9</sup>The desk monitors will review contracting documents, compliance with Davis-Bacon requirements, and file documentation. In addition, desk monitors will educate clients on energy saving tips and customer behaviors and track the results of those efforts. The field monitors will inspect 10 percent of the homes weatherized each month for overall effectiveness, workmanship, appearance, and compliance with installation standards.

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GEFA staff have conducted technical assistance visits, but no formal on-site monitoring occurred before monitors were hired.

UGA submitted its first monthly monitoring report, which consisted of desk and field reports, on April 2, 2010. Because desk monitors had not been hired for the three providers we visited, no desk reports were submitted. The field reports for the three providers we visited summarized insufficiencies for each house inspected, but did not describe the provider's overall performance or major findings. In addition, some individual inspection reports were incomplete. According to GEFA and UGA officials, future monitoring reports will include on-site assessment reports that rate each provider as very good, good, or unacceptable in 17 areas, such as file documentation, subcontractor administration, and program and financial reporting. The reports also will describe issues that are of significant concern, such as violations of eligibility guidelines or health and safety problems.

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**File Reviews Identified  
Some Deficiencies**

Our review of 25 files and other documentation during site visits conducted at three service providers found that providers inconsistently followed Energy and GEFA guidance for procuring contractors, prioritizing clients for service, determining client eligibility, and prioritizing work.<sup>10</sup> We raised these issues with GEFA, and officials said they are taking steps to address them.

**Procuring Contractors**

GEFA's Weatherization Procedures Manual and the contract the providers signed with GEFA include guidelines about contractor procurement and compliance with Recovery Act provisions such as Davis-Bacon wage

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<sup>10</sup>In Albany and Savannah, we reviewed the files for 10 completed homes. We selected a simple random sample from among the completed homes. At the Ninth District, we reviewed five files because only five homes had been completed at the time of our visit. At all three locations, we also inspected five homes (three completed homes, one where work was ongoing, and one undergoing an energy audit).

requirements.<sup>11</sup> We found that some of these requirements were not consistently followed.

Ninth District: According to GEFA and Ninth District officials, the Ninth District did not initially use a competitive process to determine the contract price for each house, a GEFA requirement. Rather, officials explained that they solicited bids from contractors and developed a standard price for each item. On the basis of guidance from GEFA, the Ninth District changed its procurement methods in February 2010. According to officials, work now is competitively bid from a pool of three to five subcontractors, and contracts awarded per home based on price, timelines, and previous performance and workmanship history.

Albany: We reviewed four contracts and did not find language requiring compliance with Recovery Act requirements, including Davis-Bacon prevailing wages. We also found and Albany officials agreed that the contracts did not include GEFA's requirement that each contractor have liability insurance of at least \$3 million in aggregate and \$1 million per occurrence; instead, each included a \$300,000 threshold.

EOA-Savannah: EOA-Savannah officials confirmed that the contracts we reviewed were awarded competitively and included Recovery Act provisions. However, they were not awarded for a specified amount.<sup>12</sup> Savannah officials told us they used a competitive process to identify the lowest bidder, but the contracts did not include the prices negotiated with the contractor. According to the officials, contractors provide a verbal price for approval before beginning work, with a final invoice payable after completing work. Further, we found and EOA-Savannah officials confirmed that Savannah's contractors did not carry the state-required

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<sup>11</sup>Historically, the Weatherization Assistance Program funded through the regular appropriations process has not been subject to the Davis-Bacon Act. However, the Recovery Act does require compliance with Davis-Bacon provisions. Under section 1606, division A, of the Recovery Act, all contractors and subcontractors performing work on projects funded in whole or in part by Recovery Act funds must pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area. The Secretary of Labor determines the prevailing wage rates and fringe benefits for inclusion in covered contracts.

<sup>12</sup>EOA-Savannah uses in-house crews to conduct the majority of weatherization work, but uses contractors to install heating systems and perform electrical work. The provider issued a request for proposals for installation of five items—heating and air systems, water heaters, stoves, bathroom exhaust fans, and kitchen vents and hoods.

level of liability insurance, with coverage ranging from \$1 million to \$2 million in aggregate.

According to GEFA officials, they have identified issues related to procurement, such as a need for more education on contracting requirements. GEFA plans to provide procurement training for providers, but has not yet found a contractor to lead the training. UGA monitors also will review each provider's contracts and procurement processes to ensure compliance with GEFA policies.

### Prioritizing Clients

GEFA identified populations to be given priority for assistance in the Recovery Act weatherization plan it submitted to Energy: the elderly, elderly with a disability, and persons with disabilities. Households containing children and households with high energy use or burden also were given priority. GEFA included the priorities in its contract with service providers, which also lists other criteria including potential energy savings and benefits directed to unit occupants.

EOA-Savannah and Albany officials explained that they prioritized clients based on age, disability status, presence of children, and energy burden, but there was no documentation in the files we reviewed that supported this. The Ninth District had developed a prioritization sheet for each client that awarded points based on demographics (elderly, family status, income, house type), with the most points awarded to elderly clients and persons with disabilities. Ninth District officials were able to provide this sheet for four of the five homes in our file review.<sup>13</sup>

While GEFA's guidance for client prioritization may not be implemented consistently, GEFA officials stated that their new Web-based reporting tool (scheduled for release in July) should automate and standardize prioritization. More specifically, the system will prioritize applicants based on age (households with people under 12 or over 60), disability status, household size, waiting time, high energy use or burden, and poverty level.

### Determining Client Income Eligibility

A home is eligible for the Recovery Act Weatherization Assistance Program if household income is at or below 200 percent of the poverty level.<sup>14</sup> Energy provided guidance to states on how to determine income

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<sup>13</sup>A Ninth District official explained the fifth home was a test case used for training purposes.

<sup>14</sup>The pre-Recovery Act Weatherization Assistance Program had an income limit of 150 percent of the poverty level.

eligibility, and GEFA distributed that guidance to providers and included a checklist on its application form.<sup>15</sup> However, the GEFA form does not include all the types of income in Energy's guidance. It includes public assistance payments, wages and self-employment income, and retirement payments such as Social Security but excludes interest, dividends, rental property, and annuities and other types of nonretirement income. The 25 files we reviewed did not include evidence that interest or dividend information (or other types of income excluded from the application) was considered during application.

UGA officials stated two monitors had identified problems with income verification and conducted additional training with providers. In addition, UGA monitors developed a sample file with the types of documentation that providers' files should contain; it includes a comprehensive checklist of sources of income to consider for income eligibility. The checklist should help providers, but none of the files we reviewed contained it.

## Prioritizing Weatherization Work

Energy guidance allows states to use priority lists (subject to Energy's approval) in conjunction with an energy audit to prioritize weatherization activities.<sup>16</sup> GEFA's approved list includes air sealing and attic insulation as the highest priority items and heating and cooling systems and water heaters as the lowest priorities.

According to GEFA officials, GEFA's provider contract requires that the priority list be followed and that an assessment form relating to the list be completed for each home. However, two of the three providers we visited did not consistently use this form. In Albany, 3 of the 10 files included the completed form, while in Savannah 5 of the 10 files did. All 5 Ninth District files we reviewed had the form. Albany and EOA-Savannah used other methods to document their assessment of work required. In Albany, staff prepared a summary sheet of major items identified that was also used as a work order to solicit bids from contractors. EOA-Savannah officials used handwritten notes from the initial inspection to document major leaks or items to repair. However, without the GEFA form, it was difficult to

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<sup>15</sup>Energy guidance lists the dollar amount of the 200 percent poverty threshold for various family sizes, along with the types of income to consider when determining eligibility.

<sup>16</sup>Energy allows states to use the National Energy Audit Tool (NEAT), a computer-based audit that applies engineering and economic calculations to evaluate energy conservation measures, or an energy audit based on an approved priority list. According to GEFA officials, Georgia has permission from Energy to use a priority list instead of a NEAT audit for similar, single-family homes.

determine if the state's priority list had been followed. According to Albany officials, they were revising procedures to include GEFA's form. EOA-Savannah officials stated that they had started using GEFA's form. According to GEFA officials, in March 2010 they made the assessment form more user-friendly, reducing the number of pages from 16 to 8.

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## Georgia Used Clean and Drinking Water State Revolving Funds to Assist Almost 60 Projects and Ensured That Subrecipients Met Milestones

Georgia received about \$122 million in Recovery Act funding from EPA for the Clean and Drinking Water State Revolving Funds (SRF).<sup>17</sup> GEFA and the Georgia Environmental Protection Division (EPD) administer both SRFs. GEFA applies for and receives funds, complies with reporting requirements, and finances SRF loans, and has designated EPD to perform monitoring and compliance reviews for SRF loans.

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## Despite Challenges, Georgia Met the Recovery Act SRF Funding Requirements and Contract Deadline

GEFA allocated approximately \$84.3 million in Recovery Act funds for the Clean Water SRF and approximately \$36.7 million in Recovery Act funds for the Drinking Water SRF.<sup>18</sup> GEFA used Recovery Act funds to provide assistance to 59 projects in 54 communities.<sup>19</sup> As shown in figure 2, 34 of these projects serve disadvantaged communities.<sup>20</sup>

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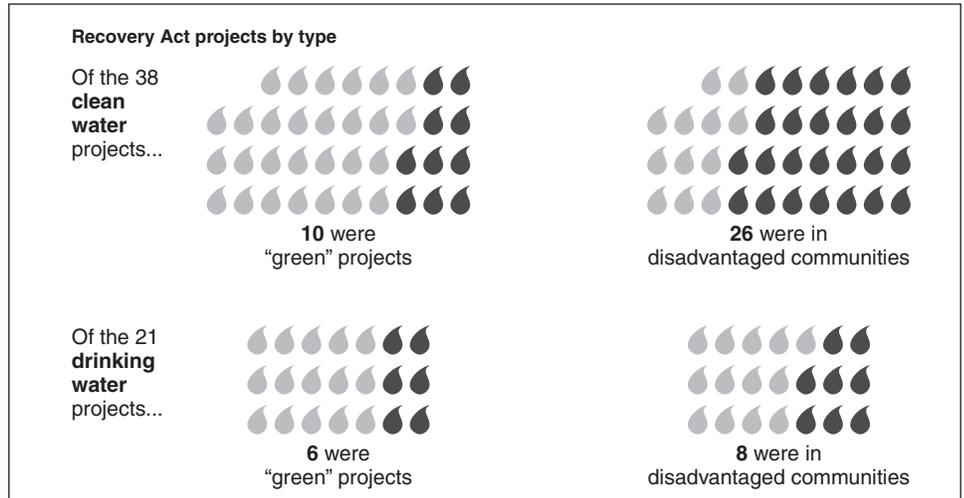
<sup>17</sup>The Clean and Drinking Water SRFs provide states and local communities independent and permanent sources of subsidized financial assistance, such as low- or no-interest loans for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations.

<sup>18</sup>The remainder of the Recovery Act funding (\$669,600) will be used for water quality management planning.

<sup>19</sup>The majority of SRF projects receiving Recovery Act funds will receive additional base SRF funding, and subrecipients will be required to comply with the requirements of the Recovery Act for any projects wholly or partially funded by the Recovery Act.

<sup>20</sup>GEFA defined disadvantaged communities as rural communities—or those that have less than 50,000 residents and a poverty rate of 10 percent or higher—for the purposes of our reporting.

**Figure 2: Projects Funded with Georgia’s Recovery Act Clean and Drinking Water SRFs**



Source: GEFA.

GEFA considered SRF loan applications for three categories—rural, nonrural, and green.<sup>21</sup> GEFA verified that all applications met basic SRF eligibility requirements, such as eligible project types. Eligible projects were reviewed and prioritized based on information such as the status of project design, environmental reviews required or completed, and the anticipated construction schedule. Additionally, officials considered whether the Drinking Water SRF projects directly addressed public health issues. Officials explained that the agency received 1,311 preapplications, about seven times the number GEFA received for the 2008 base SRF programs.

The Recovery Act requires states to meet certain funding targets. They must reserve at least 20 percent of SRF funds for green projects. States also must use at least 50 percent of SRF funds for additional subsidization (additional financial assistance beyond a low- or no-interest loan), which could include forgiveness of SRF loan principal, negative interest SRF loans, or SRF grants. GEFA exceeded these targets:

<sup>21</sup> Applicants (communities) could receive only one loan under either the rural fund or the nonrural fund, whichever was applicable. Applicants could also receive one loan under the green project fund.

- Twenty-one percent of Clean Water SRF funds and 22 percent of Drinking Water SRF funds were awarded to green projects, such as green infrastructure and projects that increase energy and water efficiency.
- The state awarded 65 percent of Clean Water SRF funds and 60 percent of Drinking Water SRF funds in the form of principal forgiveness (to address the additional subsidization requirement).

The Recovery Act also required each state to prioritize funds for projects that were ready to proceed to construction within 12 months of enactment (Feb. 17, 2010) and directed EPA to reallocate any funds for projects that were not under contract by this date. GEFA set interim deadlines to ensure that projects in Georgia met this deadline. More specifically, GEFA required applicants to certify that they could instruct contractors to begin work for proposed projects by November 1, 2009.<sup>22</sup> Officials stated they faced challenges in meeting the deadline due to the increased workload and changes to the guidance on the green reserve requirement. EPA revised its guidance on the green reserve requirement after the state had approved its final list of Clean and Drinking Water SRF projects. This resulted in two previously approved projects no longer meeting the green reserve requirement. According to officials, this change required GEFA to take additional time to (1) ensure that its green projects met the green reserve requirement and (2) obtain EPA's approval of its list.

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### Georgia Modified Its Oversight of SRF Projects to Address Recovery Act Requirements

In addition to applying base SRF program oversight policies and procedures to all Recovery Act SRF projects, GEFA and EPD have added unique procedures. For example, GEFA implemented a Web-based reporting tool for SRF subrecipients to provide data on direct jobs created and retained with Recovery Act funds. EPD added procedures to monitor subrecipients' compliance with Buy American requirements. Subrecipients are now required to maintain adequate source documentation for project components, such as certifications from manufacturers, shipping manifests, and documentation that a project owner determined that manufactured goods were assembled in the United States.

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<sup>22</sup>A number of applicants sought extensions, and after determining that all applicants that made such requests had made strong progress and a good faith effort to comply with the requirement, GEFA granted the requests received.

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As with base SRF projects, EPD officials stated they conduct oversight of Recovery Act projects from initial application through completion. All subrecipients must attend a preconstruction conference, and EPD conducts monthly site visits to ensure work is consistent with approved project plans and contract requirements. EPD officials said that during the on-site inspections, they review Buy American documentation and examine country of origin labels. EPD also reviews invoices before GEFA reimburses subrecipients.

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### SRF Projects Have Provided Economic and Other Benefits in Georgia

GEFA collects some environmental and health performance measures for base and Recovery Act SRF projects. For example, it requests information from subrecipients on energy conservation and solid waste and pollution reduction. For Recovery Act projects, GEFA also reports on direct jobs created and retained with the funds. GEFA reported that 343.8 full-time equivalents (FTE) were created or retained from January 2010 to March 2010.<sup>23</sup> During our site visit to the City of Tennille, officials provided examples of SRF benefits:<sup>24</sup>

- The city used a green Drinking Water SRF loan for new residential and commercial water meters, which officials said would help (1) identify sources of water loss (they had more than 44 percent water loss in 2007 through 2009), (2) increase revenues, and (3) encourage conservation.
- A Clean Water SRF loan partially funded an upgrade to the wastewater facility that officials believe will reduce system failures and sewage overflow into storm water facilities.

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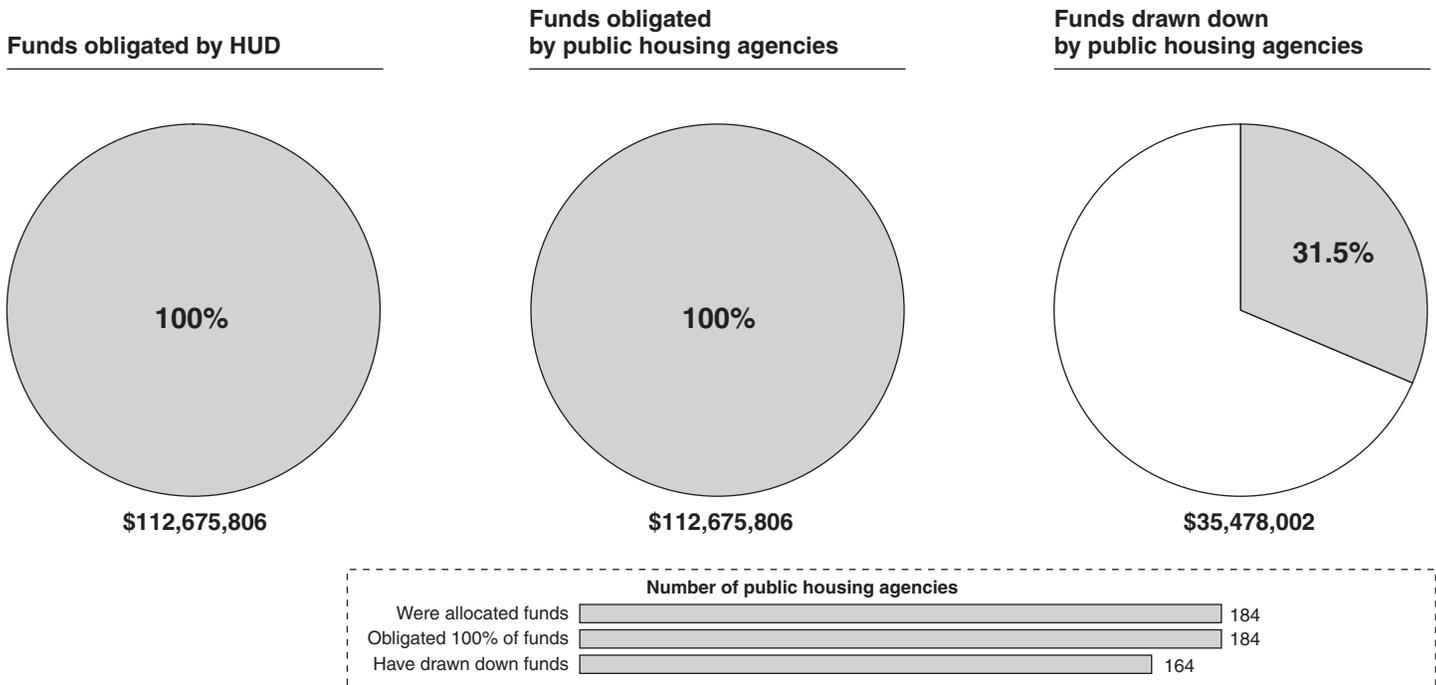
<sup>23</sup>Full-time equivalents are the total number of hours worked and funded by Recovery Act dollars divided by the number of hours in a full-time schedule, as defined by the recipient.

<sup>24</sup>We selected a mix of SRF projects to visit: a green Drinking Water SRF project in Tennille and Clean Water SRF projects in Tennille and Cobb County.

## Housing Agencies in Georgia Have Obligated All of Their Recovery Act Formula Grants

In Georgia, 184 public housing agencies received about \$113 million in Public Housing Capital Fund formula grants (see fig. 3). These grant funds were provided to the agencies to improve the physical condition of their properties. As of May 1, 2010, these agencies had obligated 100 percent of the funds and drawn down about \$35 million (31.5 percent). We interviewed four: the Housing Authority of the City of Atlanta (Atlanta Housing Authority), the Housing Authority of the City of Macon (Macon Housing Authority), the Housing Authority of the City of McDonough (McDonough Housing Authority), and the Housing Authority of the City of Villa Rica (Villa Rica Housing Authority).<sup>25</sup>

**Figure 3: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Had Been Obligated and Drawn Down in Georgia, as of May 1, 2010**



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

<sup>25</sup>We interviewed officials from the Atlanta and Macon Housing Authorities because they did not have difficulty meeting the March 17, 2010, deadline for obligating Public Housing Capital Fund formula grants. We visited the McDonough and Villa Rica Housing Authorities because they were slow to obligate their funds.

The Recovery Act requires public housing agencies to obligate their funds within 1 year of the date they were made available, or by March 17, 2010. In Georgia, all public housing agencies obligated their funds by that date. However, 21 agencies had not obligated any funds as of mid-February 2010 and were in danger of missing the deadline, as the following examples illustrate.

- According to the McDonough Housing Authority, it obligated the approximately \$215,000 it received by awarding a contract on February 18, 2010. An agency official explained that the delay was due to the small size of the housing agency and the busy schedule of the consultant hired to manage the contract bidding process. The agency awarded the contract for new doors, windows, blinds, and screens at 27 housing units.
- The Villa Rica Housing Authority obligated the approximately \$276,000 it received on March 8, 2010. An agency official explained that the challenge in obligating Recovery Act capital funds was identifying the best use of the funds. Because the housing agency was seeking HUD approval to demolish its existing units and replace them with a midrise housing development for seniors, the official did not want to put capital into units scheduled for demolition. Ultimately, the agency obligated its funds for construction of a new maintenance building and new sidewalks that could remain in place for the planned senior development.

HUD field office staff in Atlanta took measures to ensure that the public housing agencies in Georgia met the obligation deadline. Specifically, the officials actively monitored obligation rates and conducted outreach through e-mails, phone calls, and site visits to agencies that were slow to obligate the funds. For the 21 agencies that had not obligated any funds as of mid-February 2010, HUD field staff made calls to the agencies' boards of directors and the mayors of the cities in which agencies were located to inform them about the potential loss of Recovery Act funds if their local housing agency did not act quickly to meet the obligation deadline.

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## Despite Some Challenges, Georgia Has Committed the Majority of Its Tax Credit Assistance Program and Section 1602 Tax Credit Exchange Program Funds

The Recovery Act established two funding programs that provide capital investments in low-income housing tax credit projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Section 1602 Tax Credit Exchange Program (Section 1602 Program) administered by the U. S. Department of the Treasury (Treasury).<sup>26</sup> TCAP and the Section 1602 Program were designed to fill financing gaps in planned tax credit projects and jumpstart stalled projects. According to Georgia officials, such funding was needed because of a decline in pricing and a lack of investors in the tax credit market. They reported that actual prices paid per dollar of tax credit declined on average from \$0.91 in 2007, to \$0.88 in 2008, and to \$0.65 in 2009.<sup>27</sup> According to our survey of housing finance agencies, this compared to the national average of \$0.67 in 2009. Officials also noted investors were reluctant to participate in projects in rural areas and metropolitan Atlanta due to the large number of foreclosures.

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## Georgia Awarded Funding to 31 Projects and Expects to Commit the Rest of Its Funds by June 2010

Georgia received about \$54.5 million in TCAP funds. As of April 30, 2010, the Georgia Department of Community Affairs (DCA)—which administers the low-income housing tax credit program—had approved TCAP funding for seven projects containing 970 units (including 875 tax credit units).<sup>28</sup> For these projects, Georgia had committed \$44.1 million (81 percent) and disbursed \$13.3 million (24 percent). Under the Recovery Act, 75 percent of TCAP funds had to be committed by February 2010. Georgia met this deadline successfully. Seventy-five percent of TCAP funds must be expended by February 2011, and 100 percent must be expended by February 2012. Georgia also received about \$195.6 million in Section 1602 Program funds. As of April 30, 2010, DCA had approved Section 1602 Program funding for 24 projects containing 1,514 units (including 1,308 tax

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<sup>26</sup>State housing finance agencies allocate low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low-income tenants. Once awarded tax credits, owners attempt to sell them to investors to obtain funding for their projects. Investors can then claim tax credits for 10 years if the property continues to comply with program requirements.

<sup>27</sup>We sent a survey to the 50 state housing finance agencies, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands in November and early December of 2009. We asked about the status of program delivery, design, safeguards and controls, expected results, and challenges to implementation. The response rate was 100 percent (54 agencies).

<sup>28</sup>Because tax credit projects have multiple sources of financing, they sometimes include other types of units.

credit units). For these projects, Georgia had committed \$140.2 million (72 percent) and disbursed about \$28 million (14 percent). Under Section 1602 Program rules, all subawards must be made by December 2010, or the housing finance agency must return the funds to Treasury. Housing finance agencies must disburse 100 percent of Section 1602 Program funds by December 2011. DCA expects to select additional projects and commit the remainder of its TCAP and Section 1602 Program funds by June 2010.

When selecting projects to fund, DCA first considered projects that had received 2008 tax credits, but did not have adequate financing to proceed. Once all the 2008 projects had been awarded funds, DCA then considered 2009 tax-credit projects. Priority for funding was based on several factors, including project readiness; improvements to the quality, sustainability, and energy efficiency of affordable housing; financial sustainability; and ability to meet federal wage and environment requirements and create jobs.

We reviewed documentation on or visited three TCAP projects and four Section 1602 Program projects.<sup>29</sup> See table 2 for information on each of these projects.

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<sup>29</sup>We selected Riverview Heights and Baptist Towers Apartments because they were TCAP projects that had been awarded by December 31, 2009. We selected Antigua Place because it was a Section 1602 Program project with a tax-credit investor and The Landing at Southlake because it was a Section 1602 Program project without an investor. We selected Camellia Lane because it was a rural green project. In addition, we visited Sustainable Fellwood because DCA suggested it as an interesting example of an urban green project and Waterford Estates because of its proximity to Riverview Heights.

**Table 2: Selected TCAP and Section 1602 Program Projects in Georgia**

Project name	Type of funding	Recovery Act funds committed	Type of construction	Type of housing	Total number of housing units	Number of tax credit units
Baptist Towers Apartments, Atlanta	TCAP	\$1,850,000	Rehabilitation	Elderly	300	268
Riverview Heights (also known as Oconee Park), Dublin	TCAP	8,311,921	Rehabilitation	Family	117	115
Sustainable Fellwood, Phase II, Savannah	TCAP	4,300,000	New	Family	110	99
Antigua Place, Moultrie	Section 1602 Program	2,102,746	New	Over age 55	40	36
Camellia Lane, Sandersville	Section 1602 Program	8,348,674	New	Over age 55	52	52
The Landing at Southlake, Albany	Section 1602 Program	5,125,000	New	Over age 55	40	36
Waterford Estates, Dublin	Section 1602 Program	9,500,000	New	Family	56	50

Source: DCA.

According to Georgia officials, none of the projects awarded Recovery Act funding could have proceeded without these funds. With TCAP funding, the developer of the stalled Riverview Heights project is now converting an outdated development in an economically challenged area into modern Section 8 housing. Similarly, the Baptist Towers Apartments, an older high-rise for the elderly and disabled, is now undergoing significant renovation and modernization with TCAP funding. (See fig. 4 for pictures of the rehabilitation ongoing at Riverview Heights and Baptist Towers Apartments.) The Camellia Lane developer said that the project could not have started without Section 1602 Program funding because no investors were willing to finance the rural project. Camellia Lane will provide 52 new residences with geothermal heating and cooling for persons over age 55 in an area with limited housing for seniors.

Figure 4: Rehabilitation of Riverview Heights and Baptist Towers Apartments



Bathroom and kitchen at Baptist Towers Apartments prior to renovation



Bathroom and kitchen at Baptist Towers Apartments after renovation



Riverview Heights community center under construction

Source: GAO.

### Although Progress Has Been Made, Georgia Faced Some Implementation Challenges

Although DCA officials were pleased with overall progress, they reported some challenges relating to increased workloads, reporting, and cost certification. To manage the increased workload, they delayed the 2010 round of low-income housing tax credits by 60 days to complete

processing of Recovery Act projects. They also hired a temporary staff person to help with loan processing.

DCA officials also reported that complying with some Recovery Act reporting requirements was difficult. For example, they initially experienced some challenges in reporting on environmental requirements in HUD's Recovery Act Management and Performance System. In addition, they reported that it required two staff to comply with recipient reporting requirements. To ensure the reliability of job data, DCA officials said they compare the numbers to payroll records. When discussing the procedure for calculating jobs created, the officials said that the reported job numbers were understated. They believed prorating job numbers based on the percentage of project funding provided by the Recovery Act was misleading because the project might not have been completed without those funds.

A new process that DCA used to ensure that project costs were reasonable also was time-consuming. DCA worked with a local university on comprehensive cost and energy efficiency analyses for funded projects. The analyses were based on actual bids from subcontractors for the projects and resulted in increased energy efficiency and reduced costs of \$5 million, according to DCA officials. While acknowledging the utility of the cost certification process, one developer we interviewed estimated it took 6 months to complete.

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## Georgia Accelerated Its Use of Recovery Act Funds, and Selected Localities Have Begun to Receive Recovery Act Funds

Georgia moved Recovery Act funds planned for use in the fiscal 2011 budget to the 2010 budget because of declining revenues.<sup>30</sup> Localities we visited began receiving Recovery Act funds, and they had varying budget situations.

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<sup>30</sup>The state's fiscal year begins on July 1.

**Declining Revenues Forced Georgia to Accelerate Its Use of Recovery Act Funds**

Georgia’s year-to-date revenues as of March 2010 were almost 12 percent less than they were as of March 2009. To cover part of the shortfall, the Governor proposed amending the fiscal year 2010 budget by accelerating use of State Fiscal Stabilization Fund monies. According to state officials, the legislature approved moving \$342.6 million planned for use in fiscal year 2011 to fiscal year 2010. The state’s fiscal year 2011 budget included about \$2 billion in Recovery Act funds, and also eliminated vacant positions and reduced expenditures in multiple departments. Georgia drew down its reserve fund to \$103.7 million from a high of \$1.5 billion in fiscal year 2007. Georgia is preparing for the cessation of Recovery Act funds by continuing to reduce spending levels.

**Selected Localities in Georgia Also Received Recovery Act Funds**

We visited three local governments—DeKalb County, the City of Savannah, and the City of Albany—to discuss their use of Recovery Act funds and fiscal condition.<sup>31</sup> See table 3 for demographic and economic overview information.

**Table 3: Information on Three Localities Visited by GAO**

Locality	Locality type	Population <sup>a</sup>	Unemployment rate (percentage) <sup>b</sup>	FY 2010 budget (in millions) <sup>c</sup>
DeKalb County	County	747,274	10.4	\$1,231
Savannah	City	132,410	9.8	324
Albany	City	75,831	12.5	104

Sources: GAO analysis of U.S. Census Bureau data; U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; and budget documents.

<sup>a</sup>City population data are from the latest available estimate, July 1, 2008. County population data are from the latest available estimate, July 1, 2009.

<sup>b</sup>Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

<sup>c</sup>DeKalb County officials provided their operating budget. DeKalb County and Savannah have a fiscal year ending on December 31, while Albany has a fiscal year ending June 30.

**DeKalb County, Georgia**

According to county officials, DeKalb County had been awarded about \$25.4 million in Recovery Act funds as of May 4, 2010. The largest award was a \$6.5 million Energy Efficiency and Conservation Block Grant from Energy. Other funding came from programs such as the Edward Byrne

<sup>31</sup>We chose these locations because they represented a mix of cities and counties, population sizes, unemployment rates, and amount of Recovery Act funds received.

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Memorial Justice Assistance Grant Program, the Homelessness Prevention and Rapid Re-housing Program, and the Community Oriented Policing Services (COPS) Hiring Recovery Program. County officials stated that because Recovery Act funds were used mostly for one-time capital projects, the county's strategy for winding down their use will be to rely on prior capital funding sources. DeKalb County had a balanced fiscal year 2010 operating budget of approximately \$1.2 billion. To balance the budget, the county reduced overtime payments, limited purchasing, and began an early retirement program. DeKalb County has an internal auditor who plans to review Recovery Act expenditures as of April 7, 2010. Reviews of various programs that expended Recovery Act funds began in April 2010 and will end by May 2010.

Savannah, Georgia

According to city officials, Savannah had been awarded \$9.6 million in Recovery Act funds as of May 4, 2010. The city's largest award was a \$1.7 million Port Security Grant for supporting emergency management and response at the city's port. The city also was awarded funds under the Homelessness Prevention and Rapid Re-housing Program and Energy Efficiency and Conservation Block Grant Program, among others.<sup>32</sup> City officials stated that since most of the Recovery Act funds were for one-time expenses, they did not need to develop a strategy for winding down their use of the funds.

Savannah had a balanced fiscal year 2010 budget of about \$324 million. To balance its budget, Savannah froze hiring and salaries and eliminated vacant positions. According to city officials, they planned for an economic downturn by setting up a special reserve funded with excess proceeds from the sales tax. These funds helped fill revenue gaps during the downturn.

The finance and internal audit departments have oversight over Savannah's Recovery Act funds. The internal audit department's plans for fiscal year 2010 include overseeing grants as a whole, rather than Recovery Act funds specifically. If a grant at a city department is reviewed, the internal auditor will also review associated Recovery Act spending. The internal auditor has not issued any reports on Recovery Act funding to date.

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<sup>32</sup>Funding that the City of Savannah received to provide summer youth employment and adult and dislocated workers programs will be used to serve a nine-county area.

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Albany, Georgia

According to city officials, Albany had been awarded approximately \$5.9 million in Recovery Act funding as of May 4, 2010, including about \$1.4 million under the COPS Hiring Recovery Program grant. The city also received about \$771,000 in Energy Efficiency and Conservation Block Grant funds and about \$310,000 in Community Development Block Grant funds, among other grants. While the Recovery Act provided additional funding for Albany, city officials stated the funds were not essential for operations because they expanded current operations rather than created new services. When the Recovery Act funds have been used, officials stated they would scale back their operations to the previous level. Albany has a fiscal year 2010 budget of about \$104 million, and officials characterized its fiscal condition as stable. However, city officials planned to use \$3 million to \$4 million from cash reserves for budget shortfalls. Officials said absent Recovery Act funds, essential city projects could have been funded either by the special local options sales tax, an increase of property taxes, or draw downs from cash reserves. Although the city does not have an internal auditor, a staff person in the finance department coordinates Recovery Act grants and has oversight responsibilities. Officials expect that the city's 2010 Single Audit performed by an external auditor will cover Recovery Act funds.<sup>33</sup>

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<sup>33</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

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## Georgia's Accountability Community Is Auditing Recovery Act Funding

The State Auditor, the State Inspector General, and agencies' internal audit departments are responsible for auditing and investigating Recovery Act funds. The State Auditor's oversight of Recovery Act funds occurs primarily through the Single Audit, as the following examples illustrate:

- The State Auditor participated in OMB's Single Audit Internal Control Project.<sup>34</sup> On December 28, 2009, the State Auditor issued an internal control letter based on an audit of the State Fiscal Stabilization Fund Cluster and the Highway Planning and Construction Cluster.<sup>35</sup> It did not identify any findings related to its review of the State Fiscal Stabilization Fund cluster. However, it identified three significant deficiencies and one material weakness at the Georgia Department of Transportation. The significant deficiencies were noted for the following control categories: cash management, reporting, and special tests and provisions. These involved inconsistencies in the reporting of disbursement dates and the reimbursement request dates, failure to submit an accurate Schedule of Expenditures of Federal Awards, and failure to complete and maintain quarterly materials certificate checklists. The deficiency in cash management and reporting was a material weakness. The State Auditor noted that failure to have adequate cash management policies and procedures in place could result in noncompliance with federal regulations and may affect the proper recording of federal program revenues, causing misstatements within the financial statements. The Georgia Department of Transportation agreed with the findings and stated that it had implemented changes to address them.

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<sup>34</sup>OMB implemented a Single Audit Internal Control Project (project) in October 2009. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits. Sixteen states volunteered for the project including Georgia, whose auditors issued their interim reports on internal control for selected major Recovery Act programs by December 31, 2009, and a corrective action plan to the appropriate federal agency by January 31, 2010.

<sup>35</sup>The State Fiscal Stabilization Fund Cluster includes Recovery Act education stabilization and government services funds. The Highway Planning and Construction Cluster includes Recovery Act and non-Recovery Act funding for highway planning and construction and repairs to recreational trails.

- For the final fiscal year 2009 Single Audit report, the State Auditor included audits of Recovery Act programs administered by GEFA and the Georgia Departments of Community Health, Education, Human Resources, Labor, and Transportation. According to the State Auditor and other independent auditors, there were 19 findings related to programs with Recovery Act expenditures. For example, the Georgia Department of Human Resources did not record Recovery Act expenditures separate from regular expenditures on its Schedule of Expenditures of Federal Awards, which could result in material misstatements in the agency's financial statements.<sup>36</sup> According to department officials, this error was corrected prior to being reported in the final Schedule of Expenditures of Federal Awards.
- The State Auditor plans to conduct additional audits of Recovery Act programs for the fiscal years 2010 and 2011 Single Audits.

Due to limited staffing, the State Inspector General has taken a complaint-based approach to investigate alleged misuse of Recovery Act funds. Each state agency must notify the Inspector General when a complaint has been filed with the agency. Citizens can submit complaints directly to the Inspector General using a form on its Web site. To date, the Inspector General has received two complaints directly. A complaint received in Fall 2009 was based on citizen dissatisfaction with Recovery Act funds being used to purchase road signs for Georgia Department of Transportation projects. As of September 2009, the department had stopped the practice of posting these signs. Upon further investigation, the second complaint turned out not to be related to Recovery Act funds.

A number of state agencies, including the Board of Regents of the University System of Georgia, the Georgia Departments of Transportation and Human Services, and GEFA, have internal audit departments that plan to audit or are already auditing Recovery Act funds. For example, the Board of Regents of the University System of Georgia, which oversees 35 public colleges and universities in the state, has audited institutions directly or reviewed reports completed by institutions following an audit plan it provided. The 10 audit reports we reviewed did not find any significant weaknesses with Recovery Act funds. However, one report found that the institution could make improvements to its written documentation for specific procedures.

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<sup>36</sup>The Georgia Department of Human Resources has since been reorganized and renamed the Georgia Department of Human Services.

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The State Accounting Office continues to monitor Recovery Act recipient reporting by reviewing the data each state agency submits for reasonableness and potential inaccuracies. In addition, it is tracking state agencies' progress in addressing Single Audit findings and plans to produce quarterly reports. Beginning in May 2010, the office plans to start an internal control initiative working with state agencies, particularly those identified as high risk in the Single Audit, to provide additional internal control training on topics such as subrecipient monitoring and cash management issues. In addition to internal control training, the State Accounting Office is working with the Recovery and Transparency Board to conduct fraud, waste, and abuse prevention training for selected agencies in June 2010.

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## State Comments on This Summary

We provided the Governor of Georgia with a draft of this appendix on May 7, 2010, and a representative from the Governor's office responded that same day. The official agreed with our draft, stating that it accurately reflects the current status of the Recovery Act program in Georgia.

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## GAO Contacts

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## Staff Acknowledgments

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# Appendix VII: Illinois

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## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Illinois.<sup>1</sup> The full report covering all of GAO's work in the 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

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## What We Did

We conducted work on six programs funded under the Recovery Act: Edward Byrne Memorial Justice Assistance Grants (JAG), Weatherization Assistance Program, Public Housing Capital Fund, Tax Credit Assistance Program (TCAP), Section 1602 Tax Credit Exchange Program (Section 1602 Program), and Highway Infrastructure Investment. For descriptions and requirements of the programs we included in our review, see appendix XVIII of [GAO-10-605SP](#). We selected these programs primarily because they received significant amounts of Recovery Act funds. For each program, we conducted interviews and examined relevant program documents and data to determine what challenges recipients of Recovery Act funds faced in meeting mandated obligation deadlines; to assess whether state agencies met monitoring requirements set forth under the Recovery Act; or to follow up on issues we reported on in previous bimonthly reviews.

We also met with officials from the Illinois Office of the Governor, the Illinois State Board of Education (ISBE), and selected local educational agencies (LEA) to determine what steps ISBE has taken to ensure the completeness and accuracy of the employment data LEAs report to the agency, which ISBE uses to complete its quarterly reporting requirements under section 1512 of the Recovery Act.<sup>2</sup>

Additionally, our work in Illinois included monitoring the state's fiscal situation and visits to two counties—Cook County and Winnebago County—to review their use of Recovery Act funds and the impact of the funds on their budgets, as well as meeting with state-level auditors to

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

<sup>2</sup>Under Section 1512 of the Recovery Act, recipients of Recovery Act funds must submit quarterly reports that include employment and other data to the federal agencies through the [federalreporting.gov](http://federalreporting.gov) Web site. These recipient reports are due on the 10th day of the month following the end of the reporting period. These data are available to the public on the [Recovery.gov](http://Recovery.gov) Web site.

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determine what steps they are taking to oversee state agencies' implementation of the Recovery Act.<sup>3</sup>

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## What We Found

- **Edward Byrne Memorial Justice Assistance Grants.** The U.S. Department of Justice's Office of Justice Programs, Bureau of Justice Assistance (BJA) awarded \$83.7 million to Illinois and units of local government (localities) within the state under the Recovery Act JAG program. Based on a statutory formula, BJA awarded 60 percent of these funds to the state (which the state primarily used to make grants to localities) and 40 percent of the funds directly to eligible localities within the state. Only seven localities qualified for the \$33.5 million in direct funding available through BJA. As a result, the localities in Illinois that received a direct grant received disproportionately larger sums compared to localities in other states. The average award for these seven localities was \$4.8 million; the City of Chicago and Cook County were jointly awarded \$28.7 million. The localities we spoke to said that they used their Recovery Act JAG grants primarily to purchase capital equipment and pay law enforcement wages.
- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) allocated \$242.5 million to Illinois for the Illinois Home Weatherization Assistance Program, a substantial increase over the state's allocation of base program funds in prior years. Illinois's Department of Commerce and Economic Opportunity (DCEO) Office of Energy Assistance, the agency responsible for administering Illinois's weatherization assistance program, plans to use the Recovery Act funds to weatherize 27,000 homes—as of March 31, 2010, 11,283 homes had been completed or were in the process of being weatherized. Although DCEO expects to meet DOE's 5 percent inspection requirement for 2010, as of March 31, 2010, it had not inspected homes from 19 of the 35 the local agencies that weatherize homes on behalf of the state.
- **Public Housing Capital Fund.** Ninety-nine public housing agencies in Illinois received \$221.5 million in Recovery Act Capital Fund formula grants. Although all of the housing agencies met the March 17, 2010, deadline for obligating their funds, some faced challenges in doing so. For example, one housing agency we spoke to had difficulty

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<sup>3</sup>We selected Cook County because it has the largest population of any county in Illinois and Winnebago county because it has a high unemployment rate relative to other counties in Illinois.

finding enough local contractors that were willing and able to bid for its Recovery Act projects, which included replacing the roofs and siding on and replacing lights and appliances in most of its properties. Officials from the Department of Housing and Urban Development's (HUD) Illinois State Office of Public Housing and the housing agencies we spoke to stated that Recovery Act-related activities have not to date had any noticeable effect on their ability to administer their existing Capital Fund programs.

- **Tax Credit Assistance Program and Section 1602 Tax Credit Exchange Program.**<sup>4</sup> As of April 30, 2010, the Illinois Housing Development Authority (IHDA) had awarded \$91.6 million (out of the \$94.7 million available) in TCAP funds, and \$128.2 million (out of the \$264.5 million available) in Section 1602 Program funds to a total of 46 projects, including the Rosa Parks Apartments, a low-income housing development located on Chicago's west side. Despite the much needed financing these two programs are providing to low-income housing projects in Illinois, IHDA officials raised concerns about the agency's ability to bear the administrative costs associated with these programs.
- **Highway Infrastructure Investment Funds.** The U.S. Department of Transportation's Federal Highway Administration apportioned \$935.6 million in Recovery Act funds to Illinois. The federal government obligated the state's full apportionment by the 1-year deadline of March 2, 2010. As of May 3, 2010, \$451 million had been reimbursed by the federal government. Almost 77 percent of Recovery Act highway obligations for Illinois have been for pavement projects. For example, \$3.1 million has been obligated for resurfacing of 11 miles of IL Route 47 in Grundy County.
- **Recipient Reporting—Education.** ISBE implemented procedures to ensure that LEAs report employment data (expressed as full-time equivalents, or FTEs) to the agency in advance of the quarterly reporting deadlines under section 1512 of the Recovery Act. Although ISBE instituted reasonableness checks designed to identify reporting errors, the agency does not have procedures in place to assess the

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<sup>4</sup>Pursuant to the Recovery Act, we are to review the use of funds of programs included under the act's Division A. TCAP is a Division A program, while the Section 1602 Program is included under Division B of the Recovery Act. We chose to include the Section 1602 Program in our review because both TCAP and the Section 1602 Program supplement the Low-Income Housing Tax Credit Program and are being implemented simultaneously by state housing finance agencies.

accuracy of LEAs' calculations. According to ISBE officials, the agency has limited resources to independently review LEAs' calculations in the short amount of time it has to compile and submit its recipient reports. The agency has contracted with accounting firms to review a selection of LEAs' State Fiscal Stabilization Fund FTE submissions for the first reporting period.

- **Illinois's Fiscal Condition and Oversight Activities**
  - **State budget stabilization.** Recovery Act funds continued to assist the state in funding its education, infrastructure, and Medicaid programs. An estimated \$1.3 billion from the State Fiscal Stabilization Fund and \$1.6 billion made available as a result of increased federal assistance to Medicaid are expected to allow the state to provide \$2.9 billion in services in fiscal year 2010. However, the state faces a fiscal crisis stemming from a structural deficit, escalating pension costs, decreasing revenues, and unpaid bills.
  - **Counties' use of Recovery Act funds.** The counties we spoke with generally used their Recovery Act awards to pay for programs and services that would otherwise have gone unfunded. Moreover, the counties indicated that they generally avoided using Recovery Act funds for programs or personnel costs that would result in additional funding commitments for long-term obligations.
  - **State-level audits.** The Illinois Office of the Auditor General and the Illinois Office of Internal Audit are currently conducting audits of Recovery Act-funded programs; however, officials from both offices do not expect to report on the results of their audits until June 2010. The Illinois Office of Accountability is charged with assisting the Governor in complying with the Recovery Act and Illinois's Federal Stimulus Tracking Act.

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## Few Illinois Localities Qualified for Direct Recovery Act JAG Awards and Those We Spoke to Used Their Grants to Purchase Capital Equipment and Pay Wages

The Bureau of Justice Assistance (BJA) awarded \$83.7 million to Illinois and units of local government (localities) within the state under the Recovery Act Justice Assistance Grants (JAG) program. Based on a statutory formula, BJA awarded 60 percent of the \$83.7 million (\$50.2 million) to the state of Illinois, which the state in turn primarily awarded to localities in the form of pass-through grants.<sup>5</sup> BJA awarded the remaining 40 percent (\$33.5 million) directly to eligible localities within the state. The localities we spoke to said that they used their direct and state pass-through Recovery Act JAG grants primarily to purchase capital equipment and pay law enforcement wages.

In order to qualify for direct JAG funding from BJA, localities were required to report crime statistics directly or through a state agency to the Federal Bureau of Investigation (FBI). Localities that did not report these data or have these data reported on their behalf were not eligible for direct funding; however, they may have qualified for pass-through grants from the state. In Illinois, only seven localities reported their crime data to FBI and thus were eligible to receive a share of the \$33.5 million in direct JAG funding available from BJA: Aurora, Chicago, Joliet, Naperville, Peoria, Rockford, and Springfield.<sup>6</sup> Because so few localities in Illinois qualified for direct grants from BJA, those that received these grants were awarded disproportionately larger amounts of funds compared to localities in other

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<sup>5</sup>As the state administering agency for JAG funds in Illinois, the Illinois Criminal Justice and Information Authority received \$50.2 million in Recovery Act JAG funds, of which it passed \$30 million to localities, used \$15.8 million for statewide programs, and retained \$4.3 million for administrative costs. The minimum percentage of Recovery Act JAG funds that Illinois is required to pass through to localities after administrative costs are subtracted from the total grant amount is 65.5 percent.

<sup>6</sup>Illinois statute requires that localities report crime statistics directly to the Illinois State Police and according to a 2009 Department of Justice, Office of the Inspector General Management Advisory Memorandum, the state requires the localities to measure and report crime statistics in a manner that differs from how FBI measures and reports these statistics. See Department of Justice, Office of the Inspector General, *Edward Byrne Memorial Justice Assistance Grant Allocation of Recovery Act Funds to Local Municipalities in the State of Illinois* (April 9, 2009). Prior to the Recovery Act, the Illinois State Police did not convert localities' crime statistics into the format used by FBI. As a result, only those localities that reported data directly to FBI were eligible to apply for direct grants from BJA. When the law enforcement costs of two localities significantly overlap (e.g., a city makes up a large percentage of a county's population), the two localities must submit a joint application for JAG funds. All of the cities in Illinois that qualified for direct grants from BJA were required to submit joint applications with their respective counties, which included Cook, Dupage, Kane, Peoria, Sangamon, Will, and Winnebago counties. BJA officials confirmed that counties were eligible to share these grants even though the counties did not report crime statistics to FBI.

states. The average award for these seven localities was \$4.8 million; Chicago and Cook County were jointly awarded \$28.7 million. In comparison, in Pennsylvania, the state with the closest total Recovery Act JAG program allocation, BJA awarded 259 localities a total of \$26.9 million in direct JAG funds—the average direct award in Pennsylvania was \$103,934. Similarly, in New York, BJA awarded 152 localities a total of \$43.3 million in direct JAG funds—the average direct award in New York was \$285,025.

In April 2009, the Department of Justice’s Office of the Inspector General requested that the Office of Justice Programs provide greater transparency regarding the significant differences in the award amounts between localities in Illinois and localities in other states.<sup>7</sup> On May 14, 2009, the Acting Assistant Attorney General for the Office of Justice Programs informed the Office of Inspector General of a revision to the office’s Web site that complied with this request. The Illinois State Police Department is taking steps to ensure that all localities have an opportunity to report crime statistics to FBI, which could expand the pool of eligible localities in the state in the event Recovery Act JAG or similar programs are available in the future.

We visited two counties and one city in Illinois that received both a direct grant from BJA and at least one pass-through grant from the state: Cook County, Winnebago County, and the City of Rockford.<sup>8</sup> All three localities reported using their grants to purchase new equipment and to fund programs and services that, in the absence of these grants, would have gone unfunded.

**Cook County.** Cook County received \$7.2 million of a \$28.7 million grant BJA awarded directly to the county and the City of Chicago. County officials explained that this grant would be distributed among several entities in the county (see table 1).

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<sup>7</sup>See U.S. Department of Justice, Office of the Inspector General, *Edward Byrne Memorial Justice Assistance Grant Allocation of Recovery Act Funds to Local Municipalities in the State of Illinois* (April 9, 2009).

<sup>8</sup>We visited Cook County because it received more JAG funding through the Recovery Act than any other county in Illinois. We visited Winnebago County and the City of Rockford because the project status of their shared grant was listed as more than 50 percent complete as of December 31, 2009.

**Table 1: Distribution of the \$7.2 Million Direct JAG Award from BJA**

<b>Recipient</b>	<b>Amount</b>
37 municipal units of governments	\$2,571,685
Sheriff's Office	1,502,876
Nonprofits and a state university	1,144,042
State's Attorney's Office	1,021,506
Circuit Court	710,169
Judicial Advisory Council	215,719
<b>Total</b>	<b>\$7,165,997</b>

Source: Cook County Judicial Advisory Council.

Note: These amounts are subject to change.

Thirty-seven municipal units of government expect to use their share of these funds to purchase law enforcement equipment and pay law enforcement wages. Additionally, not-for-profit organizations and a state university plan to use their funds for mentoring and drug treatment programs. The Sheriff's Office plans to use its funds primarily for overtime wages of law enforcement agents, while the Circuit Court anticipates using its funds for programming designed to assist individuals with substance abuse or mental health issues. The State's Attorney's Office plans to use its share of the \$7.2 million to hire second-year law students to provide clerking services. The Cook County Judicial Advisory Council is expected to retain 3 percent of the \$7.2 million award for grant management.

In addition to the direct grant from BJA, Cook County officials said that the county received six pass-through grants from the state totaling over \$4.5 million (see table 2).

**Table 2: State Pass-Through JAG Funds Awarded to Cook County and Selected County Agencies**

<b>Recipient</b>	<b>Amount</b>
State's Attorney's Office	\$1,650,307
State's Attorney's Office	877,650
Circuit Court	500,000
Circuit Court	500,000
Sheriff's Office	499,800
Sheriff's Office	497,028

Source: Cook County Judicial Advisory Council.

The State's Attorney's Office is using its two pass-through grants for cold-case initiatives and community justice centers. The Circuit Court plans to use its awards for domestic violence programs and specialty courts that provide additional services to targeted populations of non-violent, repeat offenders. The Sheriff's Office plans to use its grants to fund 4 daily 6-hour police shifts in Ford Heights, a township that cannot afford to staff a police force of its own, and to provide transition services to recently-released prisoners, such as mentoring and job training.

**Winnebago County.** Winnebago County received two Recovery Act JAG awards totaling over \$1 million, including \$598,133 of a \$1.5 million direct award the county shared with the City of Rockford. The county used its share of the joint award to purchase capital equipment and law enforcement software. The county used a \$416,485 state pass-through grant to provide wages for the equivalent of 3 full-time corrections officer positions for 2 years. Officials expected that an economic recovery would generate sufficient revenues for the county to pay for these positions once the Recovery Act funding expires.

**City of Rockford.** Officials said that the City of Rockford received three Recovery Act JAG awards totaling \$1.4 million. The city received \$879,200 of a \$1.5 million direct grant from BJA, which it shared with Winnebago County, as noted above. The city used its share of these funds to purchase law enforcement software, in-car video systems, and bicycles for the city's Community Services Flexible Patrols program. The city also received \$540,000 from 2 pass-through grants from the state, which it used to pay for 5 part-time receptionist positions for 3 years, allowing officers to return to patrols, and purchase two squad cars.

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## Illinois Is on Track to Weatherize 27,000 Homes with Recovery Act Funds, but Oversight of Local Agencies Has Lagged

The U.S. Department of Energy (DOE) allocated \$242.5 million in Recovery Act funds to the Illinois Department of Commerce and Economic Opportunity (DCEO) for the Illinois Home Weatherization Assistance Program, a substantial increase in funding compared to previous years. By June 2009, DOE had provided \$121.3 million of the Recovery Act funds to DCEO's Office of Energy Assistance, which is responsible for administering the state's weatherization assistance program.<sup>9</sup> DCEO plans to use these funds to weatherize 27,000 homes in state fiscal years 2010 and 2011, targeting approximately 40 percent of the funds toward the 2010 program and 60 percent toward the 2011 program.<sup>10</sup>

According to DCEO, in 2010, the agency awarded \$85.6 million in Recovery Act funds to 35 local administering agencies.<sup>11</sup> Local administering agencies, such as Community Contacts, Inc., Community Action Partnership of Lake County, and Will County Center for Community Concerns, the three local agencies we spoke with as part of this report, are using these funds for planning, purchasing equipment, hiring and training staff, using contractors, and weatherizing homes on behalf of the state. For example, in Will County we observed homes in which Will County Center for Community Concerns had installed new furnaces and attic insulation using Recovery Act funds.

By March 31, 2010, according to DCEO, the local administering agencies had spent \$22.7 million (about 27 percent) of their 2010 Recovery Act funds and had completed or were in the process of weatherizing 11,283 homes.<sup>12</sup> A DCEO official said that the state expects to meet or exceed its goals to spend 40 percent of the Recovery Act funds and weatherize 40 percent of the 27,000 planned homes by June 30, 2010.

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<sup>9</sup>DOE will provide the remainder of the Recovery Act funds once the state has demonstrated that it has successfully met certain requirements, such as completing work on 30 percent of the homes slated to be weatherized with Recovery Act funds.

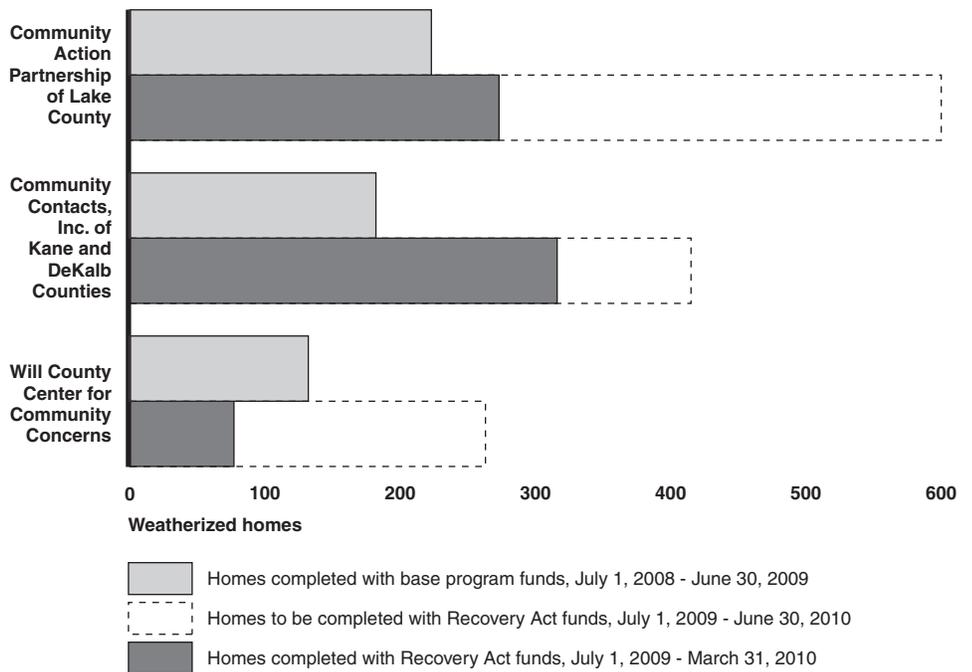
<sup>10</sup>A program year runs concurrently to the state fiscal year, which runs from July 1 to June 30.

<sup>11</sup>According to a DCEO official, the agency retained a portion of its Recovery Act award for administrative and training activities.

<sup>12</sup>According to agency officials, DCEO did not begin weatherizing homes with Recovery Act funds until November 2009, after the U.S. Department of Labor determined the state's prevailing wage rates and local administering agencies concluded their bidding processes to award contracts to implement the weatherization program. By March 31, 2010, the local agencies had spent \$15.7 million of their \$20.7 million in base program funds and had completed or were in the process of weatherizing 5,309 homes.

As a condition of accepting Recovery Act funds, DOE required that local agencies increase the number of homes weatherized compared to the prior year. The three local agencies we spoke with, like many other local administering agencies in Illinois, were able to increase the number of homes weatherized compared to the prior year because they hired new staff and used new contractors (see fig. 1). For example, Community Contacts, Inc. of Kane and DeKalb Counties increased program staff from 5 to 8 people and more than doubled the number of contractors, from 5 to 11 companies.

**Figure 1: Planned and Completed Homes at Three Local Agencies in Illinois**



Source: GAO analysis of DCEO data (homes completed) and officials at the Community Action Partnership of Lake County, Community Contacts, Inc. of Kane and DeKalb Counties, and Will County Center for Community Concern (homes to be completed data).

According to DCEO officials, DCEO required that local agencies follow state guidance to assess and document client eligibility, appropriateness of weatherization measures, including completeness and quality of work, and accuracy of labor and material costs, and required them to provide final review of work completed. We reviewed randomly-selected client files and observed home assessments and inspections of clients whose homes had been weatherized using Recovery Act funds at 3 of the 35 local

administering agencies in Illinois. For the 3 agencies we visited and the 30 files we reviewed, we found the following:

- Local administering agencies are required to determine and document that clients are eligible for weatherization assistance. Clients are eligible if their household income is at or below 200 percent of the federal poverty income level. In our review of client files, we observed that agencies had obtained income documentation such as wage statements, W-2s, and proof of Social Security or Temporary Assistance for Needy Families eligibility.
- Local administering agencies are required to prioritize the types of home improvements that will result in the highest energy savings. DCEO has implemented a computerized approach to determine which home improvements will result in the largest energy savings, which the agency calls the WeatherWorks system.<sup>13</sup> In our review of client files, we observed work orders that were generated from the WeatherWorks system that listed the weatherization measures to be taken and estimated material and labor costs.
- Local agencies are required to track the expenditures of home improvements to ensure that they stay below the state-established limit of \$5,200 per home for labor and materials.<sup>14</sup> The client files we reviewed contained documentation of work orders and contractor invoices that were within the expense limits. All three of the agencies we visited also included documentation of any change that was made to the original work order.
- As prescribed in state and local procedures, each of the three agencies we visited had procedures in place to inspect completed work.

According to DCEO officials, the agency expects to meet the DOE requirement to inspect at least 5 percent of the Recovery Act-funded homes at each of the local agencies, although the agency's home inspection rate was affected by its inability to hire 10 additional

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<sup>13</sup>Local agency assessors conduct a home inspection to determine the sources of home heat loss. They input their assessment data into the WeatherWorks system, which generates the benefit/cost ratio and prints out a work order that lists the weatherization measures to be installed and estimates of labor and materials costs.

<sup>14</sup>DCEO allows local agencies to use \$1,300 for program support, for a maximum expenditure of \$6,500 per home.

weatherization specialists to perform the inspections.<sup>15</sup> Agency officials reported that as of March 31, 2010, the agency had inspected at least 5 percent of the weatherized homes at 11 local agencies, less than 5 percent of the homes at 5 agencies, and no homes at 19 agencies. Officials noted they will do whatever it takes to meet the inspection requirement because it is one of the prerequisites for receiving the remainder of their Recovery Act funds. As of April 5, 2010, DCEO officials stated that they have been able to fill 2 of the 10 specialist positions and hope to fill the other positions soon.

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<sup>15</sup>DCEO monitors local administering agencies by visiting each agency at least annually, reviewing client files, and inspecting at least 5 percent of the homes weatherized at each local administering agency. A recent study by DOE's Office of Inspector General observed that in 2009, DCEO had not inspected any of the weatherized units completed with DOE funds at 7 of the 35 local agencies and suggested that DCEO monitoring is even more critical given the dramatic increase in work. In an internal memo, the Illinois Office of Accountability noted that DCEO had inspected at least 5 percent of the homes weatherized at all of the state's local agencies, but acknowledged that the agency did not distinguish between funding sources when selecting homes for inspection. DCEO plans to improve its tracking of Recovery Act- and non-Recovery Act-funded homes to ensure it meets the requirement. See U.S. Department of Energy, Office of Inspector General, Office of Audit Services, *Audit Report: Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois*, OAS-RA-10-02 (Washington, D.C.: Dec. 3, 2009).

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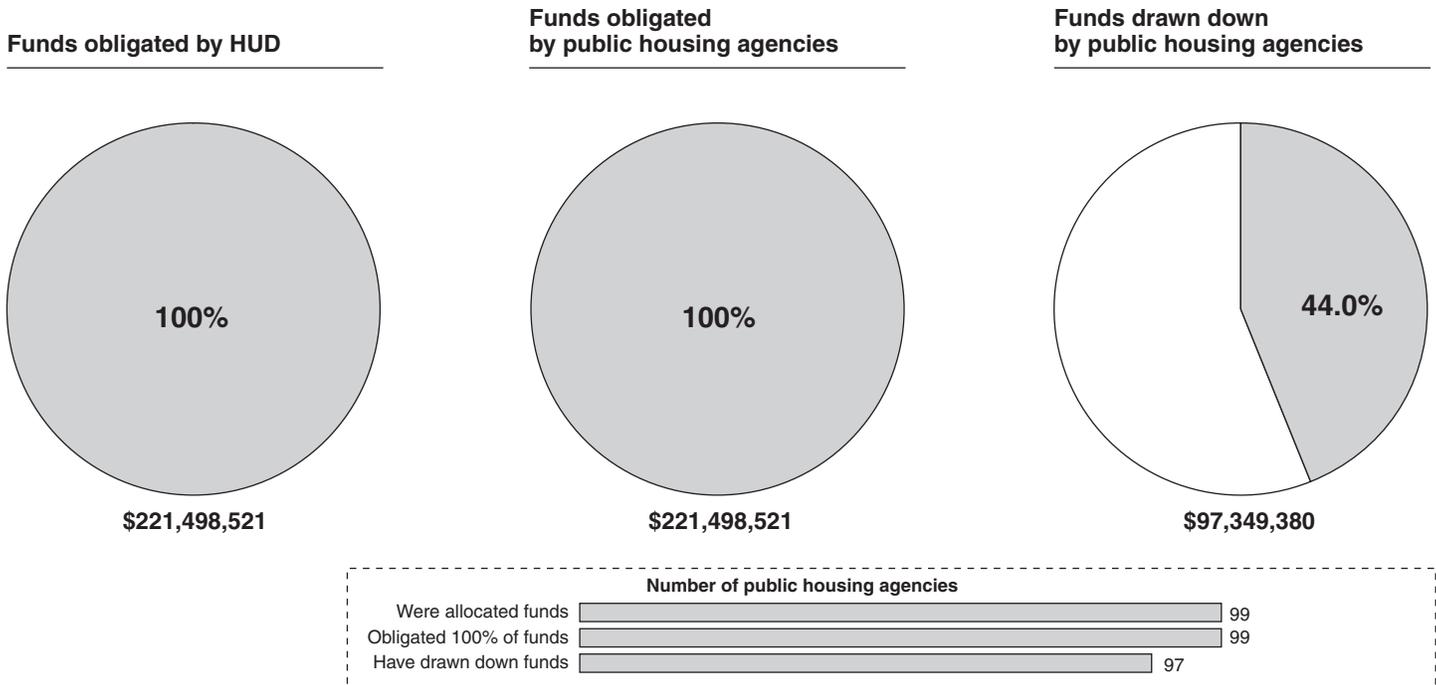
**Housing Agencies in Illinois Obligated All of Their Recovery Act Formula Funds by the March 17, 2010, Deadline and HUD’s Illinois Office Ensured Agencies’ Compliance with Recovery Act Requirements**

Ninety-nine housing agencies in Illinois collectively received \$221.5 million in Public Housing Capital Fund formula grants under the Recovery Act. These grant funds were provided to the agencies to improve the physical condition of their properties. All 99 housing agencies obligated 100 percent of their funds by the March 17, 2010, deadline. Also, 97 of the recipient agencies had drawn down a cumulative total of \$97.3 million from the obligated funds, as of May 1, 2010 (see fig. 2). For this report, we visited the Housing Authority of the County of Cook and the Marion County Housing Authority to determine what, if any, challenges they faced in obligating their Recovery Act funds. We also spoke to officials from the Chicago Housing Authority and the Housing Authority for LaSalle County, which we visited for previous reports.<sup>16</sup>

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<sup>16</sup>See GAO, *Recovery Act: States’ and Localities’ Current and Planned Uses of Funds While Facing Fiscal Stresses (Appendixes)*, [GAO-09-830SP](#) (Washington, D.C.: July 8, 2009); and GAO, *Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: December 10, 2009).

**Figure 2: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down in Illinois as of May 1, 2010**



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

Officials from two of the housing agencies we spoke to said they faced challenges that slowed their ability to obligate their Recovery Act Capital Fund formula grants. As of January 30, 2010, the Housing Authority of the County of Cook and the Marion County Housing Authority had obligated 0 and 18 percent of their funds, respectively, while more than three-quarters of the housing agencies in Illinois (including the Chicago Housing Authority and the Housing Authority for LaSalle County, the other two housing agencies we spoke to as part of this report) had obligated at least 50 percent of their funds by that date. The Housing Authority of the County of Cook used most of the \$4.7 million it received in Recovery Act funds to finance a 52-unit development for seniors called the Riverdale Senior Apartments. Although the agency was able to obligate the funds by February 22, 2010, agency officials said that the financing structure for the project was not typical and that they required additional time to finalize the structure and receive Department of Housing and Urban Development

(HUD) approval.<sup>17</sup> Marion County Housing Authority used its Recovery Act funds to award roofing, siding, lighting, and appliance installation contracts for the majority of its properties. The agency was able to obligate all of these funds by March 8, 2010, but agency officials said they were delayed because they had difficulty finding enough local contractors that were willing and able to bid for their Recovery Act projects, and thus had to expand the geographic area in which they solicited for bids. Officials from HUD's Illinois State Office of Public Housing explained that the housing agencies that took on complex design projects had relatively more trouble obligating their funds than the housing agencies that used Recovery Act funds to finance shovel-ready projects.

Officials from the Chicago Housing Authority and Housing Authority for LaSalle County said that they did not experience any major delays in obligating their Recovery Act formula funds and that they were making progress on their Recovery Act-funded projects.<sup>18</sup> Chicago Housing Authority officials said that as of April 30, 2010, they had completed work on 5 of the 12 projects the agency is funding with Recovery Act formula funds and that they expect to complete work on all but one of the remaining projects in 2010. Recovery Act-funded projects include demolitions and comprehensive rehabilitations of properties and the installation of security camera systems. Officials from the Housing Authority for LaSalle County said that as of April 30, 2010, the agency had expended 95 percent of its Recovery Act formula funds. The agency expects to complete work on all 11 of its Recovery Act-funded projects by June 2010. Recovery Act-funded projects include, among other things, the improvement of common areas, upgrades to boiler valves, rehabilitation of units, and the replacement of a retaining wall.

According to HUD Illinois officials, they have practices and procedures in place to oversee housing agencies compliance with all program deadlines

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<sup>17</sup>Housing agency officials said that the Riverdale Senior Apartments project was a hybrid between a mixed-finance development, which usually includes Low-Income Housing Tax Credit equity in addition to Capital Fund program and other funds, and a traditional development, which usually involves only Capital Fund program funds. The housing agency worked with HUD for approximately 4 months to finalize the terms and conditions of the development and to ensure it met all applicable federal regulatory requirements.

<sup>18</sup>The Housing Authority for LaSalle County obligated 100 percent of its Recovery Act Capital Fund formula grant by February 3, 2010. The Chicago Housing Authority obligated 99 percent of its Recovery Act Capital Fund formula grant by February 17, 2010, and 100 percent by March 3, 2010.

and requirements, including those under the Recovery Act. For example, they communicated almost daily with the 99 housing agencies in Illinois that received Recovery Act funding to make sure that the housing agencies were obligating their funds in a timely manner and to offer assistance in meeting the deadline. In addition, HUD Illinois officials said that they remotely monitored housing agencies' Recovery Act-related expenditures and verified housing agencies' compliance with the Buy American, Davis-Bacon prevailing wage, Section 3, and supplement-versus-supplant provisions.<sup>19</sup> HUD Illinois officials also said that they performed on-site reviews of 22 housing agencies selected based on the results of risk assessments.<sup>20</sup> Finally, HUD Illinois officials said that they performed National Environmental Policy Act (NEPA) reviews for the majority of the housing agencies in the state and provided technical assistance related to the quarterly reporting requirements under section 1512 of the Recovery Act.<sup>21</sup> Officials from housing agencies we spoke to said HUD's Illinois and Headquarters' staff were helpful in providing them assistance when needed.

Finally, officials from HUD's Illinois office and the four housing agencies we spoke to stated that Recovery Act-related activities have not had any noticeable effect on their ability to administer their regular Capital Fund programs. HUD Illinois officials provided obligations data for each of the

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<sup>19</sup>The Buy American provision of the Recovery Act requires that "none of the funds appropriated or otherwise made available by [the] Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or a public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States," and federal agencies can waive these requirements in certain circumstances. Recovery Act, div. A § 1605, 123 Stat. 303. The Davis-Bacon prevailing wage provision requires that contractors and subcontractors performing work on federally assisted contracts in excess of \$2,000 pay their laborers and mechanics not less than the wages and fringe benefits that prevail in the area. Section 3 of the Housing and Urban Development Act of 1968 states that "recipients, contractors and subcontractors shall direct their efforts to provide, to the greatest extent feasible, training and employment opportunities generated from the expenditure of section 3 covered assistance to section 3 residents." 12 U.S.C. § 1701u. Finally, the Recovery Act requires that Public Housing Capital Fund grants "serve to supplement and not supplant expenditures from other Federal, State, or local sources or funds independently generated by the grantee."

<sup>20</sup>HUD selected housing agencies for on-site reviews based on the size of their Recovery Act awards as well as results from independent public accountant audit findings, among other factors.

<sup>21</sup>The Recovery Act requires that adequate resources be devoted to ensuring that applicable environmental reviews under NEPA are completed expeditiously and that the shortest existing applicable process under NEPA shall be used.

four housing agencies we spoke with—the data reflect the obligation rate for Capital Fund program funds for fiscal years 2006 through 2008 based on the percentage of funds that were obligated within 1 year of receiving the funds, as well as the obligation rates for the 2008 and 2009 funds as of April 30, 2010 (see table 3). Although the data show that the Housing Authority of the County of Cook and the Marion County Housing Authority are obligating their 2008 Capital Fund program funds more slowly than they have in previous years, officials from both housing agencies told us that their obligation rates are on par with previous years at a time closer to the obligation deadline, and that they expect to fully obligate the funds by that deadline.<sup>22</sup> HUD Illinois officials indicated that housing agencies in Illinois are just starting to obligate their 2009 Capital Fund program funds, in part because the funds became available in September 2009 or later.

**Table 3: Percentage of Public Housing Capital Fund Program Funds Obligated 1 Year after Disbursement for Fiscal Years 2006 to 2008, and Percentage of 2008 and 2009 Funds Obligated as of April 30, 2010**

	Chicago Housing Authority	Housing Authority for LaSalle County	Housing Authority of the County of Cook	Marion County Housing Authority
2006 obligation rate	87%	85%	31%	57%
2007 obligation rate	85%	92%	22%	35%
2008 obligation rate	49%	90%	8%	27%
2008 obligation rate as of April 30, 2010 <sup>a</sup>	100%	96%	36%	58%
2009 obligation rate as of April 30, 2010 <sup>b</sup>	21%	23%	16%	3%

Source: GAO analysis of HUD data.

<sup>a</sup>The deadline for obligating the 2008 Capital Fund program funds is June 12, 2010.

<sup>b</sup>HUD Illinois officials stated that housing agencies in Illinois received at least some of their 2009 Capital Fund program funds on September 15, 2009. The deadline for obligating these 2009 Capital Fund program funds is September 14, 2011.

<sup>22</sup>As of April 30, 2010, housing authorities in Illinois had 1.5 months to obligate their 2008 funds. Housing Authority of the County of Cook officials stated that as of April 30, 2010, the agency has obligated 85 percent of its 2008 funds, and that the agency obligated 100 percent of its 2007 funds 10 days before the obligation deadline. They explained that the 85 percent obligation rate was not immediately reflected in the HUD data due to an internal lag in providing the numbers to HUD. Similarly, officials from the Marion County Housing Authority stated that the agency obligated 66 and 64 percent of the 2006 and 2007 funds, respectively, around 1.5 months before the obligation deadline. The agency’s obligation rate for the 2008 funds as of April 30, 2010 is 58 percent, which officials believe is on par with recent years’ obligation rates.

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## IHDA Has Allocated and Drawn Down Recovery Act Tax Credit Assistance Funds for a Variety of Low-Income Housing Projects

The Illinois Housing Development Authority (IHDA) is responsible for administering the Tax Credit Assistance Program (TCAP) and the Section 1602 Tax Credit Exchange Program (Section 1602 Program) in Illinois. For this purpose, IHDA established the Equity Replacement Program with a centralized application process through which IHDA awards TCAP and Section 1602 Program funds as gap financing to low-income housing projects that lack private investment due to the broader economic crisis. Under the Low-Income Housing Tax Credit program, developers with allocations of credits sell them to investors to raise equity to fund the development of low-income housing. According to IHDA officials, the average price investors were offering for Low-Income Housing Tax Credits in Illinois fell from approximately \$0.85 in 2007 to \$0.67 in 2009. IHDA expects to award TCAP and Section 1602 Program funds to projects that were awarded tax credits during the period October 1, 2006, to September 30, 2009, but that could not raise enough equity with the tax credits.<sup>23</sup>

According to IHDA officials, as of April 30, 2010, the agency had awarded \$91.6 million (out of \$94.7 million available) in TCAP funds, and \$128.2 million (out of \$264.5 million available) in Section 1602 Program funds to a total of 46 projects.<sup>24</sup> According to data from HUD and The U.S. Department of the Treasury, as of the same date, IHDA had disbursed \$22.9 million in TCAP funds and \$16.9 million in Section 1602 Program funds to the projects. The projects are expected to produce close to 2,700 low-income housing units, which will primarily benefit the elderly and families. Figure 3 describes the Rosa Parks Apartments project, which received TCAP and Section 1602 Program funds because the developer was unable to find tax credit investors.

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<sup>23</sup>Although state housing development agencies are allowed to grant Section 1602 Program funds to projects without allocations of Low-Income Housing Tax Credits, IHDA gave priority to projects that had such allocations. As of April 9, 2010, all the projects that had been awarded TCAP and Section 1602 Program funds in Illinois had allocations of Low-Income Housing Tax Credits.

<sup>24</sup>IHDA allocated some of the Illinois TCAP and Section 1602 Program funds to the City of Chicago, which awards and administers those funds with IHDA's approval. In Illinois, both IHDA and the City of Chicago receive tax credits under the Low-Income Housing Tax Credit program. According to their intergovernmental agreement, IHDA allocated approximately 22 percent of TCAP funds to the City of Chicago. IHDA officials stated that the agency allocates Section 1602 Program funds to the city as the latter is willing to exchange tax credits and demonstrates the ability to award the funds to qualifying projects.

**Figure 3: Rosa Parks Apartments, Chicago, Illinois—a Combined TCAP-Section 1602 Program Project**



One of eight buildings of the Rosa Parks Apartments project in Chicago's Humboldt Park, West Town, East Garfield, and Near West Side communities. TCAP and Section 1602 Program funds account for about 37 percent of this \$27.4 million project. The Rosa parks Apartments project is 100 percent affordable for low-income households.

Source: GAO.

According to IHDA officials, when awarding TCAP and Section 1602 Program funds to projects, the agency considered each project's viability, readiness to proceed, and level of commitment from other sources of funding, among other things. In addition, regarding TCAP funds, IHDA preferred to select projects that already included other sources of federal funding because they were already in compliance with and reporting on certain crosscutting federal requirements like the Davis-Bacon prevailing wage and NEPA requirements.

According to IHDA officials, the agency had to make some changes to its existing procedures in order to comply with certain deadlines and requirements of the Recovery Act programs. For example, HUD required TCAP recipients to draw their funds no later than 3 days after HUD made these funds available to the agency. HUD disbursed the TCAP funds through the Illinois Department of Revenue in the same way it disburses HOME Investment Partnerships program funds to IHDA, a process that,

according to IHDA officials, usually takes several weeks.<sup>25</sup> In order to comply with the 3-day draw requirement, IHDA had to set up a separate local account, with approval from HUD and the Governor's Office, from which it could draw the TCAP funds within the 3-day period.

Despite the much-needed gap financing the tax credit assistance programs are providing to low-income housing projects in Illinois, IHDA officials raised concerns about the administrative costs associated with TCAP and the Section 1602 Program. Officials stated that meeting the programs' requirements, especially the reporting requirements under section 1512 of the Recovery Act, consumed significant staff time and resources. They said that the agency could be relieved of at least part of these costs if, for example, it was able to use some percentage of the program funds to cover administrative expenses, as is allowed under HUD's HOME Investment Partnerships Program.<sup>26</sup>

Finally, IHDA officials said that the ability to award Section 1602 Program funds in the form of a loan rather than a grant would give them greater leverage in enforcing program requirements among developers, and loan repayments would provide IHDA a future source of funds for other affordable housing initiatives.

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## Illinois's Highway Program Met Recovery Act Funding Obligation Deadline and Is on Track to Maintain Spending Levels

In March 2009, \$935.6 million was apportioned to Illinois for highway infrastructure and other eligible projects. The federal government obligated the state's full apportionment by the 1-year deadline of March 2, 2010. As of May 3, 2010, \$451 million had been reimbursed by the Federal Highway Administration (FHWA) for 588 projects. States request reimbursement from FHWA as they make payments to contractors working on approved projects.

Almost 77 percent of Recovery Act highway obligations for Illinois have been for pavement projects. Specifically, \$712 million of the \$929 million obligated as of May 3, 2010, is being used for pavement improvements,

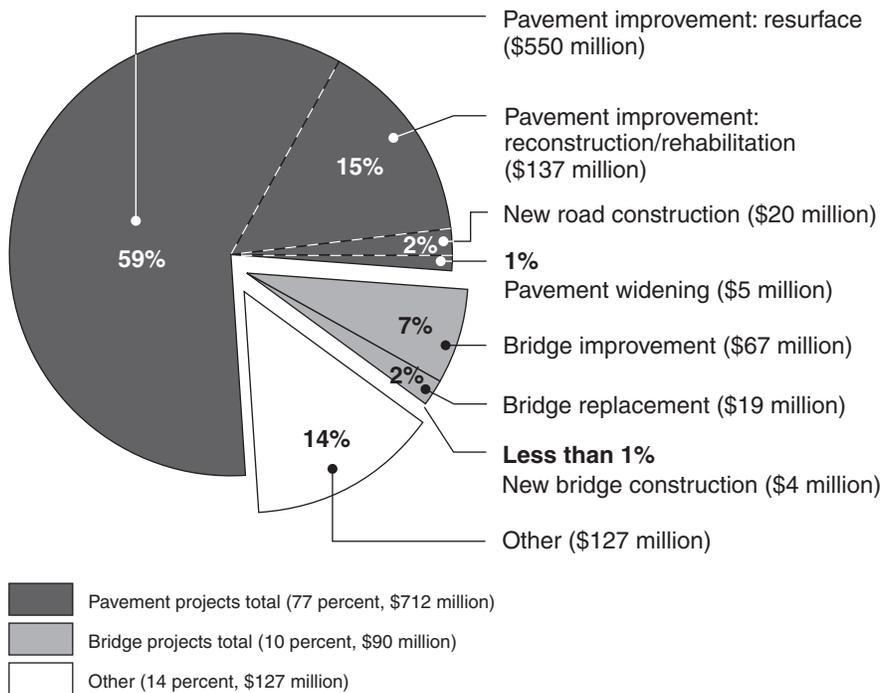
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<sup>25</sup>Under the HOME Investment Partnerships program, HUD establishes HOME Investment Trust Funds for each grantee, providing a line of credit that the grantee may draw upon as needed.

<sup>26</sup>See 24 C.F.R. § 92.207.

such as resurfacing and reconstruction (see fig. 4).<sup>27</sup> For example, \$3.1 million has been obligated for resurfacing of 11 miles of IL Route 47 in Grundy County. State officials told us they selected these types of projects because they could be completed quickly and would create jobs immediately.

**Figure 4: Percentage of Highway Obligations for Illinois by Project Improvement Type as of May 3, 2010**



Source: GAO analysis of Federal Highway Administration data.  
 Note: Totals may not add due to rounding. "Other" includes safety projects, such as improving safety at railroad grade crossings, and transportation enhancement projects, such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

Illinois Department of Transportation officials told us they were satisfied with the state's ability to maintain spending levels for transportation,

<sup>27</sup> According to an Illinois highway official, the amount of highway infrastructure funds obligated as of May 3, 2010, differs from the total Recovery Act obligation amount because the agency has requested that FHWA de-obligate some funds as a result of, for example, project bids coming in under estimates.

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which they attributed to the fact that the Illinois General Assembly passed capital funding plans in April and July 2009 that are expected to fund transportation infrastructure projects over the next few years. States are required to certify that they will maintain the level of spending that they had planned on the day the Recovery Act was enacted. In March 2010, Illinois submitted to the U.S. Department of Transportation its maintenance-of-effort certification, which amounted to just under \$1.8 billion.<sup>28</sup> U.S. Department of Transportation officials told us that they had accepted the Illinois certification.

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<sup>28</sup>A state that does not meet its maintenance-of-effort certification would be excluded from FHWA's redistribution of obligation authority that will occur after August 1, 2011.

## ISBE Has Implemented Procedures to Ensure Complete and Timely Reporting of Employment Data but Has Faced Challenges in Ensuring the Accuracy of These Data

The Illinois State Board of Education (ISBE) has implemented procedures to ensure that local educational agencies (LEA)—generally school districts—report employment data (expressed as full-time equivalents, or FTEs) to the agency in advance of the quarterly reporting deadlines under section 1512 of the Recovery Act.<sup>29</sup> For example, ISBE’s reporting system identifies LEAs that fail to report FTE and other data to the agency in a timely manner, and agency officials said that they have taken steps to follow up with these LEAs to ensure complete reporting.

However, ISBE has faced challenges in assessing and ensuring the accuracy of the FTE data LEAs report to the agency. OMB guidance emphasizes that recipients of Recovery Act funds are responsible for the quality of the data they submit to federal agencies and should take appropriate steps to minimize significant reporting errors.<sup>30</sup> In the first reporting period, which ended September 30, 2009, ISBE did not assess that the data LEAs reported to the agency were accurate. According to ISBE officials, the agency distributed OMB reporting guidance to LEAs and provided technical assistance as they calculated their FTEs. A November 2009 Chicago Tribune article raised questions about the accuracy of five LEAs’ FTE submissions for the State Fiscal Stabilization Fund.<sup>31</sup> As a result, ISBE contacted the LEAs identified and asked them to review and revise their FTEs, as needed.<sup>32</sup> We interviewed each of these

<sup>29</sup>As the recipient of approximately \$3 billion in Recovery Act funds (including funds awarded under the State Fiscal Stabilization Fund; Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended; and Part B of the Individuals with Disabilities Education Act (IDEA)) ISBE collects and aggregates FTE data from over 900 LEAs, which it reports to the U.S. Department of Education through the federalreporting.gov Web site. The purpose of calculating FTEs is to avoid overstating the number of other than full-time, permanent jobs paid for with Recovery Act funds. The state of Illinois requires state agencies to submit their data to the Illinois Reporting Test Site for review before the agencies upload their data into federalreporting.gov. According to state officials, this review includes several reasonableness checks, including a comparison of FTE submissions to federally established FTE reporting guidelines.

<sup>30</sup>See OMB, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, M-09-21 (Washington, D.C.: June 22, 2009). Significant reporting errors are instances where required data are not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the agency’s recipient report.

<sup>31</sup>See Bob Sector and Erika Slife, “Illinois Data on Stimulus-Related Jobs Saved, Created Don’t Add Up,” *Chicago Tribune*, Nov. 4, 2009.

<sup>32</sup>To date, OMB has not allowed recipients to correct their reports from the first reporting period on Recovery.gov. ISBE officials said that they are keeping corrections to FTE data on file until OMB permits agencies to make corrections to their reports.

LEAs and found that two revised their submissions downward to zero and two submitted corrections to their initial calculations.<sup>33</sup> For the two that submitted corrections, we found that they still had not accurately calculated their FTEs for the period. For example, one LEA we spoke to initially counted the number of employees it had paid with Recovery Act funds during the reporting period (135). The LEA later revised this figure to a count of only those teachers that had been laid off and subsequently rehired during the reporting period (76). Both of these calculations are potentially inaccurate under OMB's June 22, 2009, reporting guidance because they are based on the number of people, rather than the number of hours worked that were paid for with Recovery Act funds.<sup>34</sup> ISBE subsequently identified approximately 100 additional LEAs that might have similarly misreported their FTEs for the first period and asked them to review and revise their submissions, as needed. However, ISBE officials said that they did not check the corrected FTE submissions to ensure that they complied with OMB's guidance (for example, by checking the methodologies the LEAs followed or the underlying data and assumptions they used in calculating their FTEs).

ISBE officials said that in response to the number of LEAs that potentially misreported their employment numbers for the first reporting period, the agency instituted reasonableness checks designed to identify reporting errors in future reporting periods. Specifically, ISBE's reporting system now flags recipient reports with 100 or more FTEs, as well as those with more FTEs than the number of teachers and administrators the LEA employs. While a good first step, these checks need to be refined. For

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<sup>33</sup>According to ISBE guidance for the first reporting period, LEAs could report zero FTEs for the first reporting period even if they used Recovery Act funds to pay for salaries as long as they would have been able to pay for those salaries in the absence of Recovery Act funds. The fifth LEA we spoke to reported zero FTEs for the first reporting period, based on ISBE's guidance, and did not revise its submission.

<sup>34</sup>OMB's June 22, 2009, guidance (M-09-21) directs recipients of Recovery Act funds to calculate FTEs for the first reporting period using the following formula—cumulative Recovery Act funded hours worked divided by cumulative hours in a full-time schedule. The guidance also directs recipients to count only those jobs that were created or retained with Recovery Act funds, with a job created defined as “a new position created and filled or an existing unfilled position that is filled as a result of the Recovery Act” and a job retained defined as “an existing position that would not have been continued to be filled were it not for Recovery Act funding.” Simply counting people, rather than FTEs (or the total hours saved or retained with Recovery Act funds) can result in overestimations of the impact of Recovery Act funds, as measured by OMB—for example, paying one part-time teacher or a portion of one full-time teacher's salary with Recovery Act funds is not equivalent to one job paid for with Recovery Act funds, based on OMB's guidance.

example, the former check would likely flag most LEAs that received and reported on Recovery Act funds, while the latter would flag only the most egregious errors.

ISBE continued to face challenges assessing the accuracy of FTE data in the second reporting period, which ended December 31, 2009, despite the introduction of these reasonableness checks. On December 18, 2009, OMB issued guidance that clarified the method for calculating FTEs by directing recipients to base their FTE calculations on the number of hours worked that are paid for with Recovery Act funds.<sup>35</sup> According to ISBE officials, the agency and LEAs did not have sufficient time to implement the new guidance in advance of the reporting deadline. ISBE officials said that the cumulative FTE counts reported in the second period for at least some of the education programs funded with Recovery Act funds were too low—some LEAs had continued to report zero FTEs for these programs, as ISBE did not implement changes to conform to the clarifications in the most recent guidance. As a result, officials said that they contacted six LEAs, including Chicago Public Schools, the largest LEA in the state and, for any positive FTE entry the LEAs made in the first period followed by a zero FTE entry in the second period, asked them to confirm that the number of positions they reported in the first period were still being paid for with Recovery Act funds. According to ISBE officials, if an LEA confirmed that the positions it reported in the first period were still being paid for with Recovery Act funds, the agency used the first-period FTE submission for the second period.<sup>36</sup> After the conclusion of the reporting period, ISBE continued to contact LEAs with similar reporting patterns, and corrected their calculations accordingly.<sup>37</sup> However, as was true in the first reporting period, ISBE did not assess the methodologies LEAs used to compute their revised FTEs for the second reporting period, even that of Chicago Public

<sup>35</sup>OMB's December 18, 2009, guidance directs recipients to use the following calculation to determine the number of FTEs paid for with Recovery Act funds in the reporting quarter: total number of hours worked and funded by the Recovery Act within the reporting quarter divided by quarterly hours in a full-time schedule. See OMB, *Updated Guidance on the American Recovery and Reinvestment Act—Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, M-10-08 (Washington, D.C.: December 18, 2010). Under the revised guidance, reporting zero FTEs was unlikely if Recovery Act funds were used to pay for salaries.

<sup>36</sup>According to officials from the Governor's Office, based on these corrections, ISBE added over 1,900 FTEs to its second period FTE total.

<sup>37</sup>According to ISBE officials, OMB permitted recipients to make corrections to the data they submitted for the second reporting period through March 15, 2010, so these corrections are reflected in ISBE's recipient report for the period on Recovery.gov.

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Schools, which, according to ISBE data, received approximately 75 percent of the Title I funding awarded to Illinois as of December 31, 2009.<sup>38</sup>

ISBE officials said that resource constraints make it challenging to independently assess and verify the accuracy of LEA reports in the few days the agency has to submit its recipient reports to the state for review and subsequently upload them to [federareporting.gov](http://federareporting.gov). Officials from the Governor's Office and ISBE feel confident that the reasonableness checks they have created are sufficient to flag potentially inaccurate LEA FTE data and that ISBE has made reasonable efforts based on the reports generated from these checks to work with LEAs to make corrections to their data when necessary. Officials believe that the accuracy of LEAs' FTE calculations is likely to improve over time as the LEAs become more familiar with OMB's guidance and the FTE formula.<sup>39</sup> In addition, ISBE officials said that the agency has hired accounting firms to review, among other things, the FTE calculations 204 LEAs submitted to the agency for the State Fiscal Stabilization Fund funds they received in state fiscal year 2009. Officials said that the results of these reviews will allow the agency to determine areas of concern in the reporting of FTEs and provide additional training and technical assistance to LEAs to help ensure the reasonableness of their FTE calculations.

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<sup>38</sup>Also according to ISBE data, 11 LEAs collectively received approximately 50 percent of IDEA funds as of December 31, 2009.

<sup>39</sup>In this vein, an LEA we spoke to about its experiences with recipient reporting for the third reporting period, which ended March 31, 2010, told us that it had developed electronic systems to track and report on the number of hours worked by employees who are paid with Recovery Act funds. Based on our review, we determined this LEA was using a reasonable approach to calculate its FTEs for the third reporting period and could provide documentation that supported its reported figure. The Department of Education Office of Inspector General is currently conducting an audit to determine whether (1) ISBE and LEAs used Recovery Act funds in accordance with applicable laws, regulations, and guidance and (2) the data ISBE and LEAs reported to the Department of Education through [federareporting.gov](http://federareporting.gov) were accurate, reliable, and complete.

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## Recovery Act Funds Continue to Aid Illinois's State Budget and Help Local Governments Create and Expand Programs, but Significant State Budget Shortfalls Remain

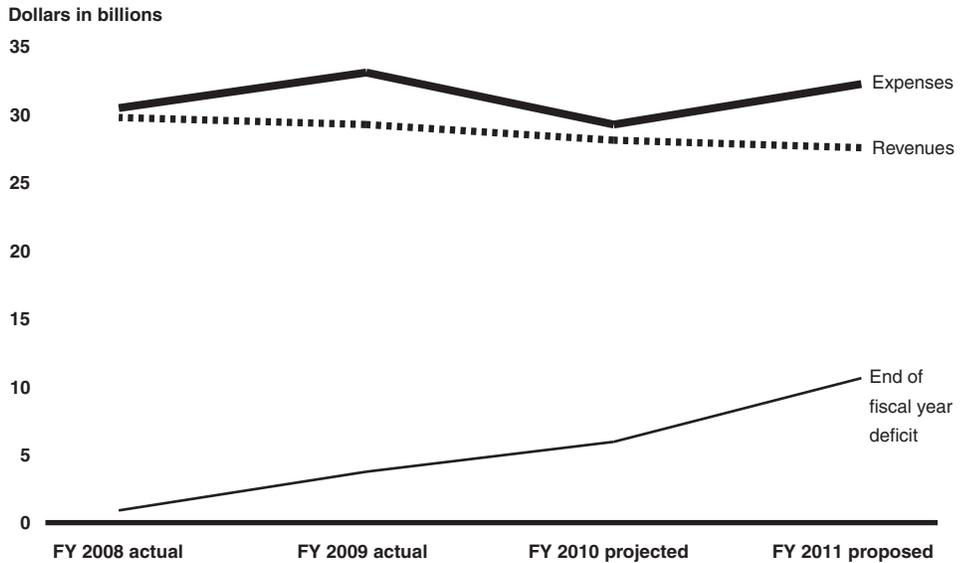
Recovery Act funds continued to assist the state in funding its education, infrastructure, and Medicaid programs. According to an Illinois OMB official we spoke with, an estimated \$1.3 billion from the State Fiscal Stabilization Fund (including both education stabilization funds and government services funds) and \$1.6 billion made available as a result of the increased federal assistance to Medicaid (Federal Medical Assistance Percentage, or FMAP) are expected to allow the state to provide \$2.9 billion in education and Medicaid services in 2010. However, as the Governor's March 10, 2010, budget proposal for fiscal year 2011 acknowledges, the state faces a fiscal crisis stemming from a structural deficit, escalating pension costs, decreasing revenues, and unpaid bills.<sup>40</sup> The state's financial situation is in part a result of practices that began long before the recession hit in late 2007. According to the fiscal year 2008 Comprehensive Annual Financial Report, the state faces continuing underlying financial weaknesses that significantly impact its overall fiscal health in regards to deferred liabilities, ongoing operational concerns related to cash management, and long-term concerns related to pension and other post-employment obligations.<sup>41</sup> According to the Governor's proposed budget, the projected cumulative deficit at the end of fiscal year 2011 exceeds \$10 billion (see fig 5).

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<sup>40</sup>A structural deficit is a fiscal system's inability to fund an average level of public services with the revenues that it could raise with an average level of taxation, plus the federal aid it receives.

<sup>41</sup>See Illinois Office of the Comptroller, *State of Illinois Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2008* (July 10, 2009).

**Figure 5: Illinois’s Revenues, Expenses, and End of Year Deficit for Fiscal Years 2008 through 2011**



Source: GAO analysis of Illinois OMB data.

Note: Fiscal year 2010 data represent Illinois OMB projections through June 30, 2010. Fiscal year 2011 data represent Illinois OMB projections based on the Governor’s proposed 2011 budget as of March 10, 2010.

With revenues projected to fall well below expenses in fiscal year 2011, the Governor’s fiscal year 2011 budget proposal calls for \$4.7 billion in borrowing to cover the anticipated shortfall.<sup>42</sup> In addition, in the face of mounting pension obligation bond debt service payments—these payments increased from \$564 million in fiscal year 2010 to \$1.6 billion in fiscal year 2011, after the state borrowed \$3.5 billion for pension bonds in fiscal year 2010—the state created a two-tiered pension system in which new employees will be eligible for less generous benefits. The budget proposal also calls for \$300 million in funding cuts for local governments by decreasing the local government income tax distributive share from 10 percent to 7 percent, as well as additional cuts to state employee benefits, social services, and public health programs. Despite over \$2.7 billion in estimated cuts, expenses remain \$4.7 billion greater than revenues in the proposed fiscal year 2011 budget. When the projected \$4.7 billion fiscal

<sup>42</sup>Illinois’s Constitution requires the Governor to submit to the Illinois General Assembly a budget proposal in which proposed expenditures do not exceed the available funds for the fiscal year.

year 2011 deficit is added to the \$5.9 billion deficit from prior years, the anticipated cumulative deficit at the end of fiscal year 2011 is \$10.5 billion.

As funding from the Recovery Act ends, the state must raise additional revenues or make significant cuts to existing services to achieve a balanced budget. For example, the fiscal year 2011 budget proposal does not include additional assistance from the State Fiscal Stabilization Fund, which has amounted to over \$2 billion cumulatively in fiscal years 2009 and 2010. To address the phasing out of State Fiscal Stabilization Fund funds in fiscal year 2011, the Governor proposed a 1-year, 1-percent increase to both the state income and corporate tax rates, which state officials project will generate an additional \$2.8 billion in revenues. Without the projected revenue from these increases, the Governor's Office said that a significant number of teachers are at risk of being laid off in fiscal year 2011 as a result of a projected \$1.3 billion funding cut for education programs.<sup>43</sup> Further, the Governor's budget proposal for fiscal year 2011 assumes that the U.S. Congress will extend the increased FMAP through June 2011, providing \$1.5 billion for the fiscal year.<sup>44</sup> If the increased FMAP is not extended, the state will be required to raise or borrow additional funds or lower expenses.

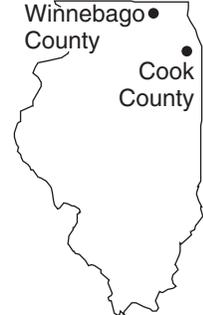
In addition to meeting with state officials, we visited Cook County and Winnebago County to review their use of Recovery Act funds and the impact of the funds on local budgets. Figure 6 provides recent demographic information for these counties.

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<sup>43</sup>The Governor noted that the proposed tax increases would prevent 17,000 teachers from losing their jobs. See *FY 2011 State of Illinois Budget Address* (March 10, 2010).

<sup>44</sup>The Recovery Act provides increased federal assistance to Medicaid through December 31, 2010; multiple proposals to extend the increase past December 31, 2010, are under consideration in the U.S. Congress.

**Figure 6: Demographic Data for Cook County and Winnebago County, Illinois**

County demographics	Cook	Winnebago
	Estimated population (2009):	5,287,037
	Unemployment rate (March 2010):	11.3%
	FY10 budget: (change from FY09):	\$3.1 billion (4.8%)
		299,702
		17.5%
		\$179 million (-6.4%)

Sources: GAO analysis of U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics (BLS) Local Area Unemployment Statistics (LAUS) data; Cook County and Winnebago County officials; and Art Explosion.

Notes: County population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revision.

County officials told us that they generally used the Recovery Act grants to pay for a variety of programs and services that would otherwise have remained unfunded. Moreover, county officials said that they generally avoided using Recovery Act funds for programs or personnel costs that would result in additional county funding commitments for long-term obligations.

As of April 23, 2010, Cook County officials reported that the county and selected county agencies received 22 Recovery Act grants totaling more than \$80 million. The county formed an internal task force to coordinate and monitor the Recovery Act funds. Table 4 describes the 5 largest Recovery Act grants awarded directly to Cook County and selected county agencies. In addition to these grants, the county awaits notification on five pending applications for grants totaling over \$73 million.<sup>45</sup> County officials also reported that the county benefited from \$35.7 million in freed-up state funds made available through the increased FMAP for services provided to Medicaid-eligible individuals in the Cook County Health & Hospitals

<sup>45</sup>Not included in this total is a \$25 million Energy Efficiency and Conservation Block Grant that the U.S. Department of Energy awarded to a consortium of localities, including Cook County, for the coordination of industry and labor programs in projects involving energy efficiency.

System (CCHHS).<sup>46</sup> Officials noted that the availability of these funds allowed CCHHS to avoid reductions in service and that such reductions are likely once the increased FMAP is discontinued.

**Table 4: Largest Five Direct Recovery Act Grants Awarded to Cook County and Selected County Agencies**

Agency	Grant	Examples of uses of funds	Amount
U.S. Department of Health and Human Services	Communities Putting Prevention to Work	Obesity prevention	\$15,898,821
U.S. Department of Energy	Energy Efficiency and Conservation Block Grant	Development of county-wide energy efficiency strategy, LED traffic lights	12,696,000
U.S. Department of Labor	Workforce Investment Act Title I-B Grant	Job training and employment services	11,459,737
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	Law enforcement equipment and wages	7,165,997 <sup>a</sup>
U.S. Department of Labor	Workforce Investment Act Title I-B Grant	Summer employment for youth	5,676,547

Source: Cook County.

<sup>a</sup>This amount represents Cook County's share of a \$28.7 million Edward Byrne Memorial Justice Assistance Grant awarded to the City of Chicago.

As of March 9, 2010, Winnebago County officials reported that the county received three Recovery Act grants totaling \$1.6 million (see table 5). While funds to replace aging squad cars and retain three corrections officers provide some relief to the county's finances, officials considered the Recovery Act grants to have had little impact on the county's overall budget stability. Budget cuts had compelled the county, which employed about 1,600 people in March 2010, to cut or leave unfilled approximately 150 positions since April 2009.

<sup>46</sup>Cook County operates its own hospitals and health system.

**Table 5: Direct Recovery Act Grants Awarded to Winnebago County**

Agency	Grant	Examples of uses of funds	Amount
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	Law enforcement vehicles and equipment	\$598,133 <sup>a</sup>
U.S. Department of Energy	Energy Efficiency and Conservation Block Grant	Traffic signal synchronization, LED traffic lights	568,800
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	Wages for 3 corrections officers for two years	416,485

Source: Winnebago County.

<sup>a</sup>This amount represents Winnebago County's share of a \$28.7 million Edward Byrne Memorial Justice Assistance Grant awarded to the City of Rockford.

## State-Level Auditors Are Conducting Audits of Recovery Act-Funded Programs

The Illinois Office of the Auditor General and the Illinois Office of Internal Audit under the Office of the Governor are currently conducting audits of Recovery Act-funded programs. According to state officials, the Illinois Office of Accountability, also under the Governor's Office, is charged with assisting the Governor in complying with the Recovery Act and Illinois's Federal Stimulus Tracking Act.<sup>47</sup>

The Illinois Office of the Auditor General is required to conduct an annual audit—referred to as the Single Audit—of the state's financial statements and federal awards, including Recovery Act awards.<sup>48</sup> The selection of programs for the single audit is based on level of program expenditures and other criteria set forth by OMB.<sup>49</sup> The fiscal year 2009 Single Audit (for

<sup>47</sup>The state's Federal Stimulus Tracking Act requires the Governor's Office, or a designated state agency, to track and report monthly to the state legislature on the state's spending of the federal stimulus monies provided pursuant to the Recovery Act. 30 Ill. Comp. Stat. 270/5.

<sup>48</sup>Single Audits are prepared to meet the requirements of the Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507) and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit requires that states, local governments, and nonprofit organizations expending more than \$500,000 in federal awards in a year obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and opinion on compliance with applicable program requirements for certain federal programs. See also OMB Circular A-133 (revised June 26, 2006).

<sup>49</sup>See OMB Circular A-133, Compliance Supplement (issued May 2009) and the Compliance Supplement Addendum (issued August 2009).

the period July 1, 2008, to June 30, 2009) includes a number of programs that received Recovery Act funds. Officials from the Office of the Auditor General said that over the past several years, the Illinois Comptroller's Office has been slow to send the expenditure data and the state's financial statements to them, which has delayed the single audit process. As was the case in previous years, the Auditor General did not complete the fiscal year 2009 single audit by the March 30, 2010, deadline.<sup>50</sup> Audit officials said that they expect to release the fiscal year 2009 audit by June 2010.

The Illinois Office of Internal Audit has also initiated audits of several programs that received Recovery Act funds. Officials expect these audits to be substantially completed by June 30, 2010. According to Internal Audit officials, audits (including audits of Recovery Act-funded programs) are prioritized based on several factors, including when agencies received and spent Recovery Act funds, prior audit findings (e.g., findings from the Single Audit), significant increases in funding, whether audit or agency staff had identified errors in recipient reports, and the outcome of agency and program risk assessments that the Office of Internal Audit completed prior to and in anticipation of the implementation of the Recovery Act.<sup>51</sup>

Officials explained that, due to resource constraints, the Office of Internal Audit likely will not audit those programs that were scheduled to be audited in this fiscal year and the next under Illinois's Fiscal Control and Internal Auditing Act. Officials felt that, in light of the amount of Recovery Act funding state agencies have received, the Office of Internal Audit should focus its resources on working with those agencies to ensure that they are using their Recovery Act funds properly. Further, because many of the state's agencies are currently subject to one or more external audits—including audits we and the federal Inspectors General are conducting—the Office of Internal Audit has delayed some of its auditing efforts to ensure those agencies are not overwhelmed and can devote resources to comply with auditors' requests.

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<sup>50</sup>See OMB Circular A-133, subpart C, section 320 (revised June 26, 2007)—In general, the single audit must be completed and submitted to OMB 9 months after the end of the audit period. For a fiscal year ending June 30, audits must be submitted by March 31 of the following year. Note that for 2009, the audits were due March 30.

<sup>51</sup>The state's assessments ranked the risk level of state agencies from low to high based on a number of factors, including the amount of Recovery Act funding disbursed to an agency, the number of subrecipients receiving Recovery Act funds, and previous audit findings. We reported on these risk assessments in [GAO-09-830SP](#).

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Effective July 1, 2010, the state's internal audit function will be decentralized, and audit responsibility will pass from the Governor's Office to internal auditors within state agencies.<sup>52</sup> The Illinois Department of Central Management Services within the Governor's Office will assume audit responsibility for the few agencies that do not have an internal audit function. These agencies will be responsible for ensuring that Recovery Act funds are used in accordance with federal laws and regulations.

Finally, the Governor established the Office of Accountability in November 2009 to help ensure compliance with the Recovery Act and the State of Illinois Federal Stimulus Tracking Act. Specifically, according to state officials, the Office of Accountability is responsible for, among other things, obtaining clarifications to federal Recovery Act-related guidance; establishing standardized policies and procedures for state agencies for tracking, reporting on, and monitoring Recovery Act funds; assisting agencies with implementing corrective action plans to address audit and risk-assessment findings; and providing technical assistance to state agencies on Recovery Act reporting requirements to ensure accurate and timely reporting. The Office of Accountability will continue to exist in this capacity after July 1, 2010, when the Office of Internal Audit is dissolved.

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## State Comments on This Summary

We provided the Office of the Governor of Illinois with a draft of this appendix on May 11, 2010. The Director of Recovery Operations and Reporting responded for the governor on May 12, 2010. The official provided technical suggestions that were incorporated, as appropriate.

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## GAO Contact

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## Staff Acknowledgments

In addition to the contacts listed above, Paul Schmidt, Assistant Director; Silvia Arbelaez-Ellis; Dean Campbell; Gail Marnik; Cory Marzullo; Rosemary Torres Lerma; and Roberta Rickey made major contributions to this report.

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<sup>52</sup>According to Illinois officials, Illinois Executive Order 2003-10, *Executive Order to Consolidate Facilities Management, Internal Auditing and Staff Legal Functions*, consolidated the state's internal audit function under the Illinois Department of Central Management Services within the Governor's Office. 27 Ill. Reg. 6401 (April 11, 2003). State officials further explained that Illinois Public Act 096-0795 mandated the return of the internal audit function to state agencies. 2009 Ill. Laws 96-795.

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# Appendix VIII: Iowa

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## Overview

The following summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Iowa.<sup>1</sup> The full report covering all of GAO's work in 16 states and the District of Columbia is available at <http://www.gao.gov/recovery>.

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## What We Did

Our work in Iowa examined four programs receiving Recovery Act funds—the Weatherization Assistance Program and three education programs—as well as state and local efforts to stabilize their budgets, monitor the use of Recovery Act funds, and report the number of jobs paid for by these funds. We selected the weatherization program because it has begun to use significant amounts of Recovery Act funds, and we selected three education programs because these are the largest recipients of Recovery Act funds in Iowa. For descriptions and requirements of the programs we reviewed, see appendix XVIII of [GAO-10-605SP](#).

To review the weatherization program, we visited Iowa's Division of Community Action Agencies (DCAA), within the Department of Human Rights, which is responsible for administering the weatherization program. We also visited three local agencies—the Polk County Public Works Department in Des Moines, Mid-Iowa Community Action (MICA) in Marshalltown, and West Central Community Action in Harlan—to provide a mix of urban and rural agencies that weatherize homes using contractors or in-house staff. According to officials, the Polk County agency, located in a large urban area, uses competitive bidding for weatherization work; MICA, located in a rural area, performs most of its weatherization work using in-house staff; and West Central, also in a rural area, uses contractors but at a predetermined price. As part of this work, we also visited 18 homes that had been or were being weatherized using Recovery Act funds.<sup>2</sup>

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

<sup>2</sup>These homes were selected to provide a mix of those for which the weatherization work had been completed, the local agency was conducting a final inspection of the work, and the work by contractors or local agency work crews was in process. The selection also depended on other factors, such as being able to obtain owner or renter permission to enter the home and scheduling our visit. We accompanied local agency personnel responsible for inspecting weatherization work and had the opportunity to discuss the work with them and the owners or renters. We also observed, as appropriate, equipment readings indicating the effectiveness of air sealing measures and the use of infrared cameras to determine the extent of wall insulation.

To review the use of Recovery Act funds for education, we met with officials from the Iowa Department of Education and reviewed state grant applications, financial records, and monitoring plans.

To review state and local efforts to stabilize their budgets, we analyzed state and local budget information, including state revenue estimates, and met with state and municipal officials. We visited three Iowa localities—Council Bluffs, Des Moines, and Newton—selected to provide a mix of large and small communities and unemployment rates. We selected Council Bluffs because it is the seventh largest city in Iowa and because its unemployment rate is below the state’s average—6.2 percent compared with a state average of 7.4 percent; Des Moines because it is the largest city in Iowa and because its unemployment rate is above the state’s average—8.4 percent compared with a state average of 7.4 percent; and Newton because its population is smaller in comparison with many other localities throughout the state, and its unemployment rate is above the state’s average—9.6 percent compared with a state average of 7.4 percent.<sup>3</sup>

To review state and local efforts to report on the results of Recovery Act funds, we met with state-level officials as well as with officials at four recipients of Recovery Act funds: the Des Moines Independent Community School District, the Heartland Area Education Agency, the Des Moines Municipal Housing Agency, and Iowa State University. We discussed their most recent quarterly reporting of funds spent and jobs funded and reviewed payroll and other documents supporting their methodology for calculating hours worked and determining full-time equivalent (FTE) positions.

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## What We Found

- **Weatherization Assistance Program.** Iowa has significantly increased the number of homes weatherized each month using Recovery Act funds. After the U.S. Department of Labor (DOL) established Davis-Bacon prevailing wage rates for weatherization in Iowa on August 19, 2009, the state began using Recovery Act funds to weatherize homes. As of March 31, 2010, the 18 local agencies

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<sup>3</sup>GAO used non-seasonally adjusted unemployment rates to compare rates between the state of Iowa and the localities in Iowa we visited. The state of Iowa had a non-seasonally adjusted unemployment rate of 7.4 percent in March 2010. State officials reported a seasonally-adjusted unemployment rate of 6.8 percent during the same period. Seasonally-adjusted unemployment rates remove the effects of cyclical events that follow a more or less regular pattern each year, such as unemployment of some construction workers in northern climates during the winter months.

implementing the program in Iowa had spent about \$14.1 million and completed weatherizing 1,176 homes, which represented about 16 percent of the state's target for Recovery Act funds.

Both the state and local agencies appear to have multi-faceted and comprehensive programs to monitor the weatherization program and use of Recovery Act funds. Specifically, each of the three local agencies we visited used the same program controls that they used under the base U.S. Department of Energy (DOE) weatherization program. While visiting homes and reviewing files, we found that the local agencies authorized all work performed and work generally appeared to meet state guidelines. However, while the three local agencies added staff and contractors in response to the increased workload, we also found that two of them did not have sufficient staff or contractors with the needed skills; as a result, they experienced problems maintaining internal controls, such as not using the same contractor to both assess the need for new equipment and install a replacement.

- **Education.** Between 2009 and 2011, the Iowa Department of Education will receive approximately \$666 million through three U.S. Department of Education (Education) programs: (1) Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended (ESEA); (2) Individuals with Disabilities Education Act, as amended (IDEA); and (3) the State Fiscal Stabilization Fund (SFSF) for education stabilization and government services. As of March 31, 2010, the department had disbursed about \$491 million in Recovery Act funds to local school districts and institutions of higher education and for government services. Of this amount, about \$332 million had been expended.

We found that the Iowa Department of Education had systems in place to monitor compliance by school districts with federal requirements for education programs and the Recovery Act. To receive SFSF funds, Iowa agreed to make progress toward specific education reforms, such as improving teacher effectiveness. However, according to state education officials, more funding is needed to modify existing reporting systems to provide some of the data for the outcome indicators used to track progress toward these reforms, such as student achievement data to measure teacher performance. Furthermore, state officials expressed concern about other challenges to implementing some of the education reforms, including limitations on disclosing personally identifiable student information to track student performance beyond high school graduation, the

confidentiality of individual teacher and principal performance evaluations, and inconsistencies between the Iowa student identification system and the National Student Clearinghouse student tracker system.

- **State and local government use of Recovery Act funds.** As of March 31, 2010, the Iowa General Assembly had approved the state's fiscal year 2011 budget, which included about \$323.9 million in Recovery Act funds for programs such as Medicaid and K-12 education. According to senior officials from the Iowa Department of Management, Recovery Act funds have enabled the state to avoid tax increases and to reduce the amount of funds drawn from the state's Cash Reserve Fund. Anticipating the end of Recovery Act funds and other one-time sources of revenue, such as the use of state reserve funds, Iowa's Governor and General Assembly implemented plans for improving the efficiency of state operations and reorganizing state agencies to reduce state expenditures. For example, as of April 15, 2010, over 2,000 eligible state employees had applied for retirement under the state's early retirement plan. Officials at three of the localities we visited—Council Bluffs, Des Moines, and Newton—said that they have used Recovery Act funds for various programs, and that these funds helped to stabilize their budgets. However, officials from two of these localities also said that they had encountered problems in applying for and administering funds from some Recovery Act competitive grants, such as the Energy Efficiency and Conservation Block Grant.
- **State monitoring and internal controls.** Iowa's State Auditor and the Iowa Accountability and Transparency Board continue to monitor controls over Recovery Act funds. While the Office of the State Auditor did not identify any material weaknesses in its fiscal year 2009 single audit report,<sup>4</sup> officials said that they identified some problems with

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<sup>4</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal controls over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

internal controls over Recovery Act funds, such as inadequate monitoring of subrecipients. The state provided training on subrecipient monitoring in May 2010. The Iowa Accountability and Transparency Board identified six high-priority programs—such as the Weatherization Assistance Program and SFSF education stabilization funds—that it expects may have some difficulty in fully complying with the accountability and transparency requirements in the Recovery Act. The Board required these programs to submit comprehensive accountability plans describing how they would comply.

- **State and local recipient reporting.** In accordance with the Recovery Act, Iowa has reported to [www.recovery.gov](http://www.recovery.gov) on the number of jobs funded by the act. Iowa created a centralized database and used it to calculate jobs based on data provided by state and local agency officials. Iowa has also implemented internal controls to ensure the accuracy of data, such as requiring state and local agency officials to certify that they reviewed and approved the jobs data prior to submission. We noted that the methods used to calculate hours varied at the four local recipients we visited—the Des Moines Independent Community School District, the Heartland Area Education Agency, the Des Moines Municipal Housing Agency, and Iowa State University—raising questions about the consistency of the quarterly reported jobs data.

## Iowa Has Significantly Increased Efforts to Weatherize Homes and to Oversee Local Agencies

Since August 2009, when DOL established Davis-Bacon prevailing wage rates for weatherization workers, Iowa has used Recovery Act funds to weatherize 1,176 homes (see table 1). Iowa steadily increased its monthly total of weatherized homes completed using Recovery Act funds from 1 in August 2009 to 318 in March 2010 primarily by using Recovery Act funds instead of funds from the Weatherization Assistance Program's base and supplemental appropriations for fiscal year 2009 and the federal Low-Income Home Energy Assistance Program. In a letter dated February 23, 2010, DOE asked DCAA whether the program would meet a weatherization production target, established by DOE, of at least 364 homes per month by March 31, 2010. In response, DCAA officials expressed concern that DOE's target was substantially higher than Iowa's goal as identified in its State Plan, DOE's goal was not based on pertinent Iowa data, and Iowa was already exceeding the monthly production goals in its State Plan. While DCAA officials are seeking to further increase production, they cited the DOE Inspector General's concern about the risk of waste, fraud, and abuse and the need to balance increased production with program oversight and accountability.

**Table 1: Homes Weatherized in Iowa by Funding Source, April 2009 through March 2010**

Month	Homes weatherized using annual appropriated funds <sup>a</sup>	Homes weatherized using Recovery Act funds	Total
April 2009	257	0	257
May 2009	255	0	255
June 2009	199	0	199
July 2009	286	0	286
August 2009	264	1	265
September 2009	202	6	208
October 2009	184	59	243
November 2009	105	147	252
December 2009	73	156	229
January 2010	53	231	284
February 2010	40	258	298
March 2010	11	318	329
<b>Total</b>	<b>1,929</b>	<b>1,176</b>	<b>3,105</b>

Source: DCAA.

Note: Iowa began its Recovery Act weatherization activities in April 2009. Iowa considers weatherization to be complete only after the local agency's inspector has conducted the final inspection and approved the work.

<sup>a</sup>The Recovery Act's weatherization funds supplement DOE's base Weatherization Assistance Program appropriations and funding from the federal Low-Income Home Energy Assistance Program. According to DCAA officials, Iowa has spent all of the \$8.6 million made available through DOE's fiscal year 2009 regular and supplemental appropriations.

As shown in table 2, DCAA awarded \$38.5 million in Recovery Act funds to 18 local agencies to weatherize homes by, for example, cleaning and tuning or replacing the furnace, sealing the living space from the outside to reduce air flow, insulating exterior walls and the attic, and replacing old, inefficient refrigerators or water heaters. As of March 31, 2010, local agencies had spent about \$14.1 million of Recovery Act funds to weatherize 1,176 homes, or about 16 percent of the state's target of 7,196 homes. Furthermore, almost all of the local agencies had completed more than 10 percent of their targets for weatherizing homes using Recovery Act funds. Iowa reported that the Recovery Act's weatherization funding had created 183 full-time equivalent jobs.

Table 2: Recovery Act Funds Disbursed and Homes Weatherized by Local Agencies, as of March 31, 2010

Local agency	Funds awarded	Funds spent	Weatherized homes	
			Target	Completed
Hawkeye	\$4,945,217	\$1,735,953	874	138
Polk County	3,906,140	1,636,731	741	146
Eastern Iowa	3,381,630	1,375,352	653	76
Mid-Iowa Community Action	2,921,118	831,451	549	73
Upper Des Moines	2,502,927	1,086,801	486	101
North Iowa	2,468,182	1,559,054	403	93
West Central	2,407,928	617,761	469	81
Operation Threshold	2,285,855	523,485	445	18
Southern Iowa Economic Development	1,924,714	53,611	386	0
Community Opportunities	1,752,337	770,383	319	61
Northeast Iowa	1,701,371	553,031	307	36
Southeast Iowa	1,621,984	608,269	295	54
Siouxland	1,572,067	877,502	302	54
Operation: New View	1,527,036	447,652	291	69
Mid-Sioux	1,068,796	567,777	187	63
Red Rock	961,281	403,837	184	53
Matura	838,215	289,499	155	40
South Central	758,942	146,766	150	20
<b>Total</b>	<b>\$38,545,740</b>	<b>\$14,084,915</b>	<b>7,196</b>	<b>1,176</b>

Source: DCAA.

Note: DOE has made available only \$40.4 million of the \$80.8 million it has obligated to Iowa. DOE plans to make the remaining funds available once Iowa has completed weatherizing 30 percent of its target of 7,196 homes and meets specified program management objectives.

DCAA's monitoring of the local agencies' implementation of the weatherization program appears to be multi-faceted and comprehensive. It includes the following:

- *Monthly reviews or desk audits.* These reviews or audits involve reconciling the local agencies' monthly financial reports on program spending with activity reports on the weatherization of homes to ensure that they are consistent and that the local agencies are on schedule to spend their funds and to check for unusual expense charges.
- *Reviews of the agencies' annual independent auditors' reports.* As the local agencies submit these reports on their financial statements

and internal controls over financial reporting, DCAA reviews them for any identified problems.

- *On-site monitoring at each local agency that leads to a formal annual assessment or evaluation.* This monitoring includes a review of fiscal and program operations and inspections of homes that have been weatherized. DOE requires states to inspect 5 percent of homes weatherized. According to Iowa officials, DCAA inspects about 7 percent of homes weatherized and will try to sustain this rate even as more homes are weatherized with Recovery Act funds. In turn, DCAA requires local agencies to inspect 100 percent of weatherized homes. DCAA's on-site monitoring is a critical aspect of its oversight and its primary interface with the local agencies on their compliance with program requirements and the quality of their weatherization work.

Our review of DCAA's two most recent annual evaluations for MICA, Polk County, and West Central Community Action found that the on-site monitoring covered a wide range of program and state requirements.

- The program operations component included a review of compliance with state requirements for training, contracting and bid procedures, documentation of health and safety issues in weatherizing homes, general management and administrative practices, and timeliness and accuracy of monthly reporting. We noted, however, that the most recent on-site monitoring of program operations at MICA, Polk County, and West Central was more than a year ago. For example, DCAA's visits to review program operations at MICA and West Central took place in November 2007 and February 2008, respectively. Similarly, the State of Iowa Single Audit Report for the year ending June 30, 2009, found that DCAA did not monitor the program operations component for 6 of the 18 local agencies because DCAA did not have prior year findings. State officials explained that state policy and its monitoring plan approved by DOE provides for DCAA to monitor agencies more frequently if it finds significant problems and less frequently if it finds that the local agency has a sound program. According to state weatherization officials, DCAA is currently making site visits to review the program operations of all local agencies because of the large increase in funding from the Recovery Act. A DCAA official told us that, for example, the three local agencies included in our review received site visits during February and March 2010. These site visits either had not been made or the results were not available at the time that we reviewed the files.
- The fiscal operations component, among other things, examined financial transactions for accuracy and supporting documentation,

compared time sheets to determine if the hours reported agreed with payroll information, and reviewed expenses to determine if they were supported by the terms of the local agency's agreement with the state. The State of Iowa Single Audit Report found that, while DCAA monitored fiscal operations, 8 of 18 DCAA fiscal monitoring reports were not sent to local agencies within 30 days after the review, as required by the monitoring plan. DCAA said that it will make every effort to ensure that both program and fiscal monitoring reports are sent in a timely manner.

- DCAA inspected homes to determine if the work met state standards for weatherization. In cases where these inspections found that work did not meet the standards, the inspector notified the local agency that the homes had failed the inspection and directed the agency to take corrective action. For example, the DCAA inspector failed one home when he found that some floors had not been insulated to their edges, some wall insulation needed to be redone, and an exhaust fan duct had not been insulated. Local agencies did not always report their corrective actions on failed homes to DCAA in a timely manner. The State of Iowa Single Audit Report found that for three of the six home inspection folders reviewed, the local agency did not report its corrective action within 45 days of receiving the state's notice, as required by the state monitoring plan. DCAA said that it would monitor this situation more closely to ensure corrective actions are reported by the due dates.

DCAA inspections during late June and early July 2009 uncovered a more serious case. During routine program monitoring of homes weatherized by the Southern Iowa Economic Development Association (SIEDA), DCAA found numerous weaknesses in the agency's oversight of the contractors' work.

- DCAA found that work performed on numerous homes did not meet required state standards; SIEDA was not inspecting homes after they were weatherized; and the housing coordinator misled the DCAA about how the need for furnace and water heater replacements was determined. According to state officials, the housing coordinator had told DCAA that the energy auditor determined replacement needs while, in actuality, they were determined by the contractor.
- Although Recovery Act funds were not used on these homes, DCAA believed that the program weaknesses were so serious that it suspended Recovery Act funding to the agency on September 24, 2009, and required SIEDA to submit an action plan to address these

concerns. On September 29, 2009, SIEDA submitted its plan to DCAA; the plan called for discontinuing work with current furnace and weatherization contractors, developing new contracting procedures, and establishing a policy for home evaluations and inspection to ensure that all work performed is according to program standards and practices. The agency had also fired the housing coordinator.

- As of April 2010, DCAA was still working with SIEDA to revise its policies and train more contractors. According to DCAA officials, SIEDA will be required to demonstrate improved performance using other funds before the state resumes funding under the Recovery Act.

Our visits to MICA, Polk County, and West Central Community Action to review their implementation of the weatherization program found the following:

- The local agencies essentially use the same program controls to implement the weatherization program under the Recovery Act that they use for the regular DOE weatherization program. Local agency officials said program controls have been in place for years and are effective, ensuring that their agencies meet program requirements. While visiting homes and reviewing files at these agencies, we generally found that the work charged to the program was authorized and appeared to meet the state's quality guidelines. The files varied by local agency in terms of the information they contained but were generally complete and contained information essential to understanding the work.
- To respond to the increased workload from the influx of Recovery Act funds, the local agencies added staff and contractors. Specifically, Polk County increased its staff of auditors and inspectors from 4 to 13 and, as of March 2010, had increased the number of contractors weatherizing homes from 5 to 17. MICA increased its staff of auditors and inspectors from 2 to 4, added staff for a third work crew, and plans to add a second 2-person furnace crew. MICA originally performed all work in-house but has since added 3 contractors and expects to add a fourth. West Central increased its staff of auditors and inspectors from 3 to 5 and added an agency assistant director to work with contractors and Davis-Bacon requirements. West Central also increased its contractors from about 4 to 14.
- Even so, two of the agencies experienced some difficulty in maintaining internal controls over the weatherization program as they were adding staff or contractors. For example, West Central used the

same contractor to diagnose, repair, and replace problem furnaces—and did not visit homes to confirm that repairs or replacement were needed—because agency staff do not have the expertise nor the time to visit homes across West Central’s large service area, which covers 10 counties. According to state and West Central officials, the local agency requires prior agency review and approval of all furnace replacements called for by the contractor. Approval is based on the results of the agency’s on-site evaluation of the furnace at the time of the energy audit and the contractor’s written request and justification for replacement. We also found that the same West Central staff conducted both the home energy audit, which identifies the weatherization work to be performed by a contractor, as well as the final inspection of the contractor’s work. In both instances, the Executive Director and Energy/Housing Coordinator for West Central acknowledged that this dual role was not desirable. The coordinator told us that West Central has been trying to find additional furnace contractors interested in working with the agency and is considering hiring an employee to do the furnace diagnostics and tune and clean or to sub-contract for the work. West Central had no choice but to use the same staff to conduct the home energy audit and final inspection, the official said, because the agency did not want to delay the final inspection and payment to the contractor. The official also said that this situation was expected to improve with the addition of two new staff to perform inspections.

- In beginning to use contractors for weatherization work, MICA found that competitive bidding for contracts was limited because they received few bids. MICA works with three contractors, but not all contractors bid on each home. According to MICA officials, the situation will likely improve as the agency works to add contractors qualified to bid on weatherization work.

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## Iowa Continues to Monitor the Use of Recovery Act Funds for Education, but New Reform Requirements Present Challenges According to State Education Officials

Under the Recovery Act, Iowa will receive approximately \$666 million in Recovery Act funds through three Education programs. As of March 31, 2010, Iowa had disbursed about \$491 million to local school districts, institutions of higher education, and for government services as described below:

- *ESEA Title I, Part A.* As of March 31, 2010, Education had made available to the Iowa Department of Education an estimated \$51.5 million in ESEA Title I, Part A, funds under the Recovery Act. In turn, the Iowa Department of Education has disbursed a total of about \$16 million to school districts. These funds are intended to help school districts educate disadvantaged youth, and the Recovery Act requires these additional funds to be distributed through states to school districts using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. On April 6, 2010, Iowa was awarded one of the first expanded ESEA Title I School Improvement Grants, for \$18.7 million for school year 2010 - 2011. These funds are intended to help improve student achievement in the nation's persistently low-performing schools identified for improvement, corrective action, or restructuring.
- *IDEA, Part B.* As of March 31, 2010, Education had made available to the Iowa Department of Education an estimated \$126.2 million in IDEA, Part B, funds under the Recovery Act. The Iowa Department of Education has disbursed a total of about \$50 million to school districts and area education agencies. IDEA, Part B, is the major federal statute supporting the provisions of early intervention and special education and related services for children and youth with disabilities.
- *SFSF.* Education allocated to Iowa a total of about \$472 million in SFSF funds, which included about \$386 million in education stabilization funds and about \$86 million in government services funds. The state had to complete two separate applications to receive the funds. Education made the first phase of SFSF funds available to the state in June 2009 and the second in March 2010. As of March 31, 2010, Iowa had disbursed a total of about \$258 million to school districts, \$80 million to public universities, and \$23 million to community colleges. It had also disbursed \$63 million in SFSF government services funds. Iowa plans to use most of the \$63 million in government services funds in 2010 for such programs as public assistance, public safety, and Medicaid.

To receive Recovery Act funds, Education required that states provide assurances concerning accountability, transparency, reporting, and

compliance with certain federal laws and regulations. The Iowa Department of Education had systems in place to monitor compliance by school districts with federal requirements for education programs prior to the receipt of Recovery Act funds. These processes were extended to the oversight of Recovery Act funds as described below.

- The department designated certain staff responsible for overseeing education funds: the Chief Financial Officer, for SFSF funds; the Title I manager, for ESEA Title I funds; and the IDEA program manager, for IDEA, part B funds. Additionally, the department's Finance, Facilities and Operations Services group analyzes annual financial reports and external audit reports to identify areas needing more department oversight. State area education agencies, which distribute the state IDEA funds regionally, also assist the state by monitoring local districts' use of IDEA funds. Some officials at the Iowa Department of Education expressed concern that recent staff reductions at the state level and a steady loss of experienced business managers in many of the school districts across the state could result in less oversight of funds at a time when more oversight might be needed due to the influx of Recovery Act funds.
- The department reviews several different reports to monitor the use of Recovery Act funds by the state's 361 local school districts. These reviews include (1) an annual certified financial report (completed by September 15, about 3 months after the end of the state fiscal year); (2) an annual financial audit performed by an external auditing firm (completed by March 31, about 9 months after the end of the state fiscal year); and (3) specifically for the Recovery Act, the quarterly recipient report that details Recovery Act funds spent and related jobs information. In addition, every quarter, the state reconciles districts' reported Recovery Act spending with expenditure information in its accounting system. The Iowa Department of Education is also audited annually by the Iowa State Auditor, who has not noted any material weaknesses in the department in the last 3 years.

To receive its initial SFSF funding allocation, the U.S. Department of Education required that each state provide several assurances, or promises, that it would meet established state funding requirements, called maintenance-of-effort, and implement strategies to advance four core areas of education reform. The U.S. Department of Education's four areas of reform and Iowa's progress towards meeting them are as follows:

- *Increase teacher effectiveness and address inequities in the distribution of highly qualified teachers.* According to Iowa

Education officials, as a result of prior actions, Iowa has highly qualified teachers dispersed across the state's high- and low-poverty districts and has not had to take other actions to address teacher quality assurances. To increase teacher effectiveness and address inequities in the distribution of highly qualified teachers, according to Iowa Education officials, the Iowa General Assembly passed legislation in 2001 establishing teaching criteria and mentoring programs, restructuring the teacher evaluation process and salaries, and requiring individual development plans and continuous education for teachers. The legislation was instrumental in raising state teaching standards and the state's national teacher quality ranking from 42nd to 26th highest in the country, according to Iowa Education officials.

- *Establish a pre-K-through-college data system to track student progress and foster improvement.* To track student progress, Iowa established a comprehensive student achievement information system in 1990. However, according to Iowa Education officials, an expansion of the state's system to track students through the college years depends on whether the state can overcome barriers such as the federal Family Educational Rights and Privacy Act and national data comparability issues. According to state officials, December 2008 amendments to the act provide additional flexibilities in sharing information, but officials continue to be concerned that the Family Educational Rights and Privacy Act limits the state's ability to share personally identifiable student information between K-12 schools and community colleges that are under the Iowa Department of Education and public universities that operate under a separate Board of Regents. State education officials said that recent discussions with the U.S. Department of Education have helped identify a resolution to this matter, but changes have not yet been implemented.
- *Make progress toward rigorous college- and career-ready standards and high-quality assessments that are valid and reliable for all students, including students with limited English proficiency and students with disabilities.* The Iowa Department of Education is currently implementing the Iowa Core Curriculum. Iowa Education officials said that the Core Curriculum was established on a voluntary basis in 2007, and in 2008 the Governor signed legislation requiring full implementation of the curriculum. According to Iowa Education officials, the Iowa Core Curriculum is closely aligned with federal standards, and it positions the state to comply with voluntary national standards. According to officials, it requires the state to go beyond establishing standards and benchmarks to define elements of classroom success, including specific skills and behavior learned in the

classroom. The enacting legislation established full implementation dates for the core curriculum of 2012 for grades 9-12 and 2014 for grades K-8, according to Iowa Education officials.

- *Provide targeted, intensive support and effective interventions to turn around schools identified for corrective action or restructuring.* Officials in the Iowa Department of Education told us that the state is currently tracking student progress, working with schools to develop remedial plans, and providing additional professional development for teachers and principals. They said that the state will continue to work with the U.S. Department of Education to improve the state's schools. However, Iowa Education officials generally disagree with Education's models for reforming low-performing schools because all four models require removal of the school principal. Iowa Education officials said that they do not believe removing the principal is necessarily effective or always appropriate, particularly at schools where poor performance is more affected by the population of students than the abilities and efforts of the principal or teachers. Iowa Education officials also said that they believe that providing states the opportunity to develop their own corrective action plans, instead of implementing one of the Department's four models, would be more effective and could work as long as the U.S. Department of Education established regulations to ensure that states are initiating constructive actions.

To receive their second phase of SFSF funding, states had to complete an application in which they described their ability to address 37 indicators and descriptors that support the four assurances agreed to in the initial application. These 37 indicators include, for example, (1) the percentage of core courses taught in the highest and lowest poverty schools by teachers who are highly qualified, (2) the percentage of limited English-proficient students who are included in state reading/language arts and mathematics assessments, and (3) total students, by school and subgroup, who graduate from high school in 4 years. For those indicators and descriptors that the states do not currently report on, states were required to provide plans for how data would be collected, and obstacles to collecting these data. In its application, Iowa reported that it collected data for 25 of the 37 indicators and provided information on how it planned to address the remaining 12 indicators and potential obstacles to obtaining data. For example, Iowa reported that it did not have a system to track student achievement data to measure teacher and principal performance, nor to determine teacher impact on student achievement in reading and mathematics in grades in which they administer these assessments. The state cited a lack of funds and personnel as potential obstacles to implementing and administering the needed data system

changes. Furthermore, Iowa Education officials reported that under Iowa law, the Iowa Department of Education was not allowed to make public individual teacher and principal performance data. In order to respond to the indicator requirements without violating individual privacy concerns, the Iowa Department of Education is working with the U.S. Department of Education to develop a means for reporting aggregated data for classes, schools, or districts instead of reporting individual student, principal, or teacher data.

The Iowa Department of Education applied for a school improvement grant on February 22, 2010, and was approved for an \$18.7 million grant on April 6, 2010. Among other things, the new grant rules increase the amount of funds that can be spent on one school from \$500,000 to \$2 million. The U.S. Department of Education's stated goal for the use of these funds is "to dramatically transform school culture and increase student outcomes in each state's persistently lowest-achieving schools." The U.S. Department of Education has specified that local school districts choose between four "school intervention models": school turnaround, closure, restart, and transformation. The models vary in approach, but require specific actions, such as replacing the principal and up to half of the staff or closing the school permanently and relocating students to nearby, higher performing schools. However, Iowa education officials cited the following short- and long-term challenges in implementing the requirements of this grant program:

- *Time frame to implement change.* According to Iowa Education officials, the U.S. Department of Education did not notify the state that it was selected for a new school improvement grant until just before the time that most school districts normally make staffing decisions and offer contract extensions for the next school year. Furthermore, school districts are required to submit their applications to the state by May 21, 2010, and will not know if their plan is approved until sometime after that date. As a result, local school districts will likely be rushed to implement changes during the 2010-2011 school year.
- *Distribution of grant funds.* The new grant program rules generally require that states identify the lowest-achieving 5 percent of ESEA Title I schools as Tier 1 schools (those that are persistently underachieving) and designate them as highest priority for grant funds. Iowa has about 120 ESEA Title I schools, meaning that 6 schools will be designated as the lowest performing 5 percent. These 6 schools will be eligible to apply for up to \$2 million to improve their performance over 3 years, while most other ESEA Title I schools will receive less

than they did in the past. In prior years, school funding was limited to \$500,000 per school, which allowed the state to fund more schools.

- *Contract negotiations.* Iowa Education officials said they expect to have to negotiate changes with the local teachers' unions on changes, such as providing longer school days and school years and releasing or transferring teachers in nonperforming schools. This could delay or limit school districts' ability to make changes at some schools.
- *Rural school districts.* Iowa Education officials noted potential problems releasing or transferring teachers or principals from nonperforming schools in the state's rural areas. Many of Iowa's 361 school districts are in rural areas that already have a shortage of education professionals. Iowa Education officials questioned whether these districts would be able to find sufficient numbers of certified and trained replacements should they be required to release staff. Some districts already have a shortage of qualified teachers for certain subjects, particularly math. Finally, some students in rural areas must travel a great distance to go to school, so that these students may need to travel even further if a school or a portion of a school closes.

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## Iowa State and Local Governments Said They Benefit from Use of Recovery Act Funds, but Some Localities Experienced Challenges Applying for Competitive Grants

As of March 31, 2010, the Iowa General Assembly had approved all appropriations bills for Iowa's fiscal year 2011 budget,<sup>5</sup> which is based on a revised revenue estimate of approximately \$5.44 billion,<sup>6</sup> and appropriates a net total of approximately \$5.28 billion from the state's General Fund. The General Assembly also included \$323.9 million in Recovery Act funds in the fiscal year 2011 budget, including about \$240.2 million for funding Medicaid-related programs,<sup>7</sup> and about \$47.9 million for funding state school aid for K-12 education.<sup>8</sup> However, according to officials from the Iowa Department of Management and Iowa's Legislative Services Agency, the General Assembly appropriated Recovery Act funds for Medicaid-funded programs on the assumption that Iowa would receive an extension of Recovery Act Medicaid funds. Senior officials from the Iowa Department of Management added that if there is no extension of Recovery Act Medicaid funds, the General Assembly will be able to consider a supplemental appropriation for Medicaid funds, based on enrollment and funding need, during the 2011 legislative session.<sup>9</sup> Additionally, officials from Iowa's Legislative Services Agency said that, despite the allocation of Recovery Act funds for state school aid, local school districts may be required to increase property taxes to make up for any shortfall of state or local education funds. Senior Iowa Department of Management officials told us that the amount of Recovery Act funds received for fiscal year 2010 enabled Iowa to avoid tax increases and to reduce the amount drawn down from its Cash Reserve Fund.

Senior officials from Iowa's Department of Management said that the Governor recently implemented plans for improving the efficiency of state

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<sup>5</sup>Iowa's fiscal year begins July 1 and ends June 30.

<sup>6</sup>On March 11, 2010, the Iowa Revenue Estimating Conference increased the estimated amount of revenues to be collected by Iowa in fiscal year 2011 from about \$5.40 billion to about \$5.44 billion.

<sup>7</sup>According to officials from Iowa's Legislative Services Agency, an example of a Medicaid-related program is the state resource centers. These centers pay for Medicaid services, but through an appropriation from the General Assembly independent of appropriations for other state Medicaid programs.

<sup>8</sup>According to officials from Iowa's Legislative Services Agency, the General Assembly appropriated all remaining Recovery Act State Fiscal Stabilization Fund monies—both the education stabilization funds and the government services funds—for state school aid for fiscal year 2011.

<sup>9</sup>The Recovery Act provides increased federal assistance to Medicaid through December 31, 2010; bills have been proposed in the U.S. Congress to extend the increase beyond that date.

operations to reduce state expenditures, in part to account for revenue shortfalls following the disbursement of remaining Recovery Act funds and other one-time sources of revenue, such as state reserve funds. Additionally, according to state officials, the General Assembly approved legislation including additional measures to improve efficiency in state government and reorganize state agencies.<sup>10</sup> According to senior Iowa Department of Management officials, the efficiency improvements and reorganization proposals are estimated to achieve a combined reduction of \$270 million in expenditures in fiscal year 2011.

Among the efficiency improvements is the implementation of optional early retirement plans for eligible state employees, according to senior Iowa Department of Management and Iowa Legislative Services Agency officials. Senior Iowa Department of Management officials said that the early retirement plan is intended to reduce state personnel expenditures by about \$58 million per year beginning in fiscal year 2011 by reclassifying positions, filling only essential positions, and taking advantage of different skill sets and levels of experience that new employees would bring to their respective positions. Furthermore, officials believe that the early retirement program will help reduce the state's unemployment, provide greater diversity in state government, and expand employees' service capabilities. As of April 15, 2010, according to senior Iowa Department of Management officials, over 2,000 eligible state employees had accepted the state's early retirement offer.

We have previously noted that as experienced federal employees retire, they leave behind critical gaps in leadership and institutional knowledge, increasing the challenges government agencies face in maintaining a skilled workforce.<sup>11</sup> These consequences may also be applicable to Iowa as experienced state employees take advantage of the early retirement offer; state agencies and departments may experience difficulties administering and monitoring federally funded programs, including those funded by the Recovery Act. Should the state experience problems administering and

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<sup>10</sup>According to officials from Iowa's Legislative Services Agency, the Governor implemented some plans for improving the efficiency of state operations through Executive Order 20 (Dec. 16, 2009), and the General Assembly passed additional efficiency improvements and plans to reorganize state agencies, as detailed in Iowa Senate File 2088 (Feb. 1, 2010).

<sup>11</sup>For more information, see GAO, *Older Workers: Federal Agencies Face Challenges, but Have Opportunities to Hire and Retain Experienced Employees*, GAO-08-630T (Washington, D.C.: Apr. 30, 2008).

monitoring federally funded programs, the Iowa Department of Administrative Services, as well as Iowa state agencies and departments, could address these potential issues by creating and implementing policies to address leadership and knowledge gaps. For example, the state could choose to implement policies requiring new employees to complete additional training and mentoring programs to help them better understand how to effectively carry out their responsibilities. Commenting on our draft report, senior officials from the Iowa Department of Management said they do not believe that the early retirement program will impair state government operations; they also said services would continue to be provided. Officials added that training will be provided to new employees as required by individual Iowa state agencies and departments.

We visited three localities in Iowa, including two localities we visited in 2009, to discuss the use of Recovery Act funds by local governments (see table 3). Local municipal governments benefited from the use of Recovery Act funds under various programs, according to officials we spoke with. In addition, some localities we visited cooperated with other entities to obtain Recovery Act grants. However, some local government officials expressed concern about the process for applying for and administering some Recovery Act competitive grants.

**Table 3: Demographics of Localities Visited to Address Use of Recovery Act Funds**

Local Government	Population <sup>a</sup>	Locality Type	Unemployment Rate, March 2010 (percent) <sup>b</sup>	2009-2010 Operating Budget <sup>c</sup>
City of Council Bluffs	59,536	City	6.2	\$63,854,868
City of Des Moines	197,052	City	8.4	\$625,633,246
City of Newton	15,042	City	9.6 <sup>d</sup>	\$12,385,302

Sources: GAO analysis of U.S. Census Bureau population data and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; City of Council Bluffs; City of Des Moines; and City of Newton.

<sup>a</sup>City population data are from the latest available estimate, July 1, 2008.

<sup>b</sup>Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. The state of Iowa had a non-seasonally adjusted unemployment rate of 7.4 percent in March 2010, and had a seasonally-adjusted unemployment rate of 6.8 percent during the same period. Rates are a percentage of the labor force.

<sup>c</sup>The timeframe for the 2009-2010 budgets of all localities we interviewed is July 1, 2009-June 30, 2010.

<sup>d</sup>The unemployment rate reflects Jasper County, Iowa (where Newton serves as the county seat).

**Council Bluffs**

- Council Bluffs, according to city officials, was awarded approximately \$6.2 million in Recovery Act funds from federal and state sources, and had received approximately \$694,000 in Recovery Act funds as of May 1, 2010. Officials from Council Bluffs said that the city used Recovery Act funds to fund various projects (see table 4), such as rehabilitating several city roads and bike trails and renovating city buildings to improve energy efficiency. Officials also noted that the city filed a joint application with the City of Carter Lake and Pottawattamie County to obtain funding from the Edward Byrne Memorial Justice Assistance Grant. However, city officials said they did not initially have sufficient capabilities to complete the application process and electronically report data pertaining to the Recovery Act Energy Efficiency and Conservation Block Grant program.<sup>12</sup> To resolve the issue, city officials said the city used a consultant to finish the city’s application for funding and complete the grant’s periodic reporting requirements.

**Table 4: Select Sources of Recovery Act Funding to Council Bluffs**

Agency	Program	Use of funds	Amount awarded
Iowa Department of Transportation	Highway Infrastructure Investment Program	Reconstructing a segment of College Road in Council Bluffs	\$2,300,000
DOE	Energy Efficiency and Conservation Block Grant	Replacing chillers, mechanical systems, and windows in the Council Bluffs City Hall and other municipal buildings	571,500
U.S. Department of Housing and Urban Development	Community Development Block Grant – Recovery	Constructing roads and other infrastructure for new low- and medium-income housing	285,520
U.S. Department of Justice	Edward Byrne Memorial Justice Assistance Grant	Purchasing law enforcement equipment and training, including installing new training simulators and making additional improvements to a local shooting range <sup>a</sup>	504,215 <sup>b</sup>

Source: City of Council Bluffs.

<sup>a</sup>According to Council Bluffs officials, their police department shares the local shooting range with other federal, state, and local law enforcement agencies based in Iowa and Nebraska.

<sup>b</sup>Council Bluffs, the City of Carter Lake and Pottawattamie County received a joint allocation of \$541,500; of that amount, Council Bluffs received \$504,215.

- Council Bluffs officials said that the city has experienced positive economic growth over the past 2 years, and the city projected

<sup>12</sup>The Recovery Act Energy Efficiency and Conservation Block Grant is intended to fund, through formula and competitive grants, energy efficiency and conservation programs and projects in communities, as well as renewable energy installations on government buildings. The grant is administered by DOE.

increases in revenues and expenditures for fiscal year 2010-2011 in comparison with the previous fiscal year.<sup>13</sup> City officials also said that Council Bluffs benefited financially from the use of Recovery Act funds; for example, the city avoided using capital funds to pay for road projects funded by the Recovery Act, and maintained its bond rating to avoid higher interest rates on bonds issued by the city.

- City officials said that Council Bluffs does not have a strategy to address any budgetary shortfalls after they use available Recovery Act funds. However, city officials said that the city should not experience significant financial difficulties because many of the Recovery Act funds are being used for one-time expenses, such as road projects.

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## Des Moines

- Des Moines was awarded more than \$18 million in Recovery Act funds from federal and state sources and, according to city officials, had received approximately \$3.7 million in Recovery Act funds as of April 30, 2010. Des Moines officials said that the city used Recovery Act funds to rehabilitate roads, construct bike trails, and expand community service programs, as well as for other initiatives (see table 5). City officials also said that Des Moines cooperated with other entities to obtain funding for several Recovery Act grants.<sup>14</sup> However, these officials said the process to apply for competitive grants, such as the Recovery Act Energy Efficiency and Conservation Block Grant, has been frustrating because DOE continues to change its mind on what is an acceptable project. For example, according to city officials, DOE changed its mind three times before finally disapproving a proposed \$555,000 mortgage buy-down program.<sup>15</sup> In another case, DOE told Des Moines officials they would be able to implement a revolving loan program that would allow the city to issue itself loans for, among other

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<sup>13</sup>Council Bluffs projected total revenues of about \$98.4 million for fiscal year 2010-2011, which is about a 12.8 percent increase in comparison to total revenues of \$87.2 million for fiscal year 2009-2010. Council Bluffs also projected total expenditures (including operating, capital, and enterprise expenditures) of about \$97.9 million for fiscal year 2010-2011, which is about a 16.3 percent increase in comparison to total expenditures of about \$84.2 million for fiscal year 2009-2010.

<sup>14</sup>Des Moines partnered with cities and counties in the Des Moines metropolitan area in applying for funding from the Recovery Act Energy Efficiency and Conservation Block Grant program, the Edward Byrne Memorial Justice Assistance Grant program, and an Iowa Office of Energy Independence grant program.

<sup>15</sup>According to Des Moines officials, the mortgage buy-down program would allow the city to help homeowners refinance their residences to obtain funding for energy improvements.

things, retrofitting public buildings with energy improvements. DOE later told city officials the revolving loan program would not be an eligible activity. Furthermore, city officials said that the Des Moines City Council had approved a grant application for the Recovery Act Assistance to Firefighters Fire Station Construction Grant in June 2009.<sup>16</sup> However, city officials said they did not receive notification from the Federal Emergency Management Agency about the status of their application until April 2010, when city officials were informed that the city’s application was denied.

**Table 5: Select Sources of Recovery Act Funding to Des Moines**

Agency	Program	Use of funds	Amount awarded
Iowa Department of Transportation	Transportation Enhancement	Constructing multipurpose trail extensions of the Principal Riverwalk along the Des Moines River	\$2,849,000
U.S. Department of Housing and Urban Development	Community Development Block Grant – Recovery	Expanding neighborhood infrastructure rehabilitation programs (e.g., street, curb, sidewalk repairs) and demolition programs for neighborhood redevelopment	1,152,886
	Homelessness Prevention and Rapid Rehousing	Assisting individuals and families at risk of becoming homeless with temporary rent or utility assistance, and providing temporary housing assistance to individuals and families already experiencing homelessness	1,763,874
U.S. Department of Justice	COPS Hiring Recovery Program (CHRP)	Creating nine additional police officer positions for 3 years, with an additional year funded by the City of Des Moines, to support community policing efforts	2,191,806
	Edward Byrne Memorial Justice Assistance Grant (JAG)	Improving forensic capabilities, upgrading technology, and funding equipment to improve officer safety	1,178,833 <sup>a</sup>

Source: City of Des Moines.

<sup>a</sup>Local governments in the Des Moines metropolitan area, including Des Moines, the City of Altoona, and Polk County, received a joint award of \$1,502,161. Of that amount, Des Moines received \$1,178,833.

- Des Moines officials said the city is facing a structural deficit,<sup>17</sup> in part due to reductions in property taxes and other sources of revenue, as well as because of increased costs of health insurance and other

<sup>16</sup>The Recovery Act Assistance to Firefighters Fire Station Construction Grant is intended to provide financial assistance directly to fire departments on a competitive basis to build new or modify existing fire stations and is administered by the Federal Emergency Management Agency.

<sup>17</sup>A structural deficit is a budget deficit that results from a fundamental imbalance in a government’s revenues and expenditures, as opposed to based on short-term factors.

employee benefits. To address the deficit, Des Moines intends to eliminate 58 full-time equivalent positions in fiscal year 2011-2012 and has reduced services, such as reducing hours of operation for public libraries, and changed some of its business practices, such as increasing contracting for city services.<sup>18</sup> Projected reductions in revenue in fiscal year 2010-2011 prompted the Des Moines City Council to approve decreases in expenditures in the current fiscal year as well.<sup>19</sup>

- City officials noted, however, that the use of Recovery Act funds mitigated the effects of recent budget reductions. Specifically, city officials said that funds for the COPS Hiring Recovery Program allowed Des Moines to fund positions for nine police officers and funds from the U.S. Department of Housing and Urban Development provided much needed neighborhood redevelopment and homelessness prevention programs. Transportation funding played an important role in allowing the city to move forward on important capital improvement projects. Des Moines officials said that once they expend available Recovery Act funds, they plan to reduce funding for these programs to pre-Recovery Act funding levels.

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## Newton

- As of May 1, 2010, Newton was awarded approximately \$1.3 million in Recovery Act funds from state sources, and according to city officials, has been reimbursed about \$701,000 for expenses related to Recovery Act-funded projects. Newton officials said that the city used Recovery Act funds to perform overlay projects on several city streets and replace an aeration basin at Newton's water treatment facility (see table 6).

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<sup>18</sup>A full-time equivalent is the number of hours that represent what a full-time employee would work over a given time period, such as a year or a pay period.

<sup>19</sup>Des Moines projected total revenues of about \$639.2 million for fiscal year 2010-2011, which is about a 12.9 percent decrease in comparison to total revenues of about \$733.6 million in fiscal year 2009-2010. Additionally, Des Moines projected total expenditures (including for operating and capital expenditures) of about \$701.3 million for fiscal year 2010-2011, which is about a 8.9 percent decrease in comparison to total expenditures of about \$770.2 million for fiscal year 2009-2010.

**Table 6: Select Sources of Recovery Act Funding to Newton**

Agency	Program	Use of funds	Amount awarded
Iowa Department of Natural Resources and Iowa Finance Authority	Clean Water State Revolving Fund	Replacing aeration basin at Newton's water treatment facility	\$684,000 <sup>a</sup>
Iowa Department of Transportation	Highway Infrastructure Investment Program	Performing road overlay projects on several streets in Newton	\$620,472

Source: City of Newton.

<sup>a</sup>Newton officials said that the city obtained \$684,000 in loans in lieu of grants (of which \$136,000, or about 20 percent, is forgivable).

- Newton expects to receive more revenues in fiscal year 2010-2011 than it did in the previous fiscal year, but it also expects higher total expenditures for the same period.<sup>20</sup> City officials noted, however, that Newton benefited financially from the use of Recovery Act funds; for instance, the city avoided capital expenditures for future road repairs and anticipates it can reduce maintenance costs for its water treatment facility.
- Newton officials said that the city does not have a strategy to address any budgetary shortfalls once it uses available Recovery Act funds because the Recovery Act funded one-time expenses for capital improvements to Newton's roads and water treatment facility.

## Iowa's State Auditor and Accountability and Transparency Board Continue to Monitor Controls over Recovery Act Funds

Iowa's State Auditor and Accountability and Transparency Board continue to monitor controls over Recovery Act funds, as discussed below:

- Iowa's fiscal year 2009 comprehensive annual financial report and its fiscal year 2009 single audit report were issued on December 18, 2009, and March 31, 2010, respectively. The State Auditor's office issued a qualified audit opinion on the State of Iowa's financial statements because of a significant (40 percent) reduction in the office's fiscal year 2009 appropriation. Specifically, according to the State Auditor, the state auditor's office could not sufficiently audit the state's general fund and other governmental activities because of the office's limited

<sup>20</sup>Newton projected total operating revenues of about \$12.3 million for fiscal year 2010-2011, which is an increase of about 0.7 percent in comparison to operating revenues of about \$12.2 million for fiscal year 2009-2010. Newton also projected operating expenditures of about \$12.9 million for fiscal year 2010-2011, which is about a 4.2 percent increase in comparison to operating expenditures of about \$12.4 million for fiscal year 2009-2010.

funding. In the state's fiscal year 2009 Single Audit report, the State Auditor's office noted that it did not identify any material weaknesses.

- A State Audit official told us that Iowa's single audit covered almost all (99.54 percent) of the Recovery Act funds received in fiscal year 2009, and that it performed some testing of recipient reports submitted during fiscal year 2010. Furthermore, a State Audit official told us that the audit found that some departments receiving Recovery Act funds, such as Iowa's Department of Education, lack formal written policies for reviewing and approving subrecipient reports. The official also found that although subrecipient reports are reviewed for reasonableness, specific procedures are not applied to determine whether the financial amounts and number of jobs reported are supported by adequate documentation. The State Auditor's office recommended that the Department of Education implement written policies and procedures for reviewing recipient reports submitted by school districts to ensure that reported expenditures are allowable and that reporting is complete. In March 2010, the Iowa Department of Education submitted a Recovery Act Funds Monitoring Plan to the U.S. Department of Education for approval.
- Iowa's Accountability and Transparency Board is composed of representatives from the Iowa Governor's Office, Department of Management, Auditor's Office, the Legislature, local governments, and local citizens. The Iowa Accountability and Transparency Board's Internal Control Evaluation Team surveyed 82 programs and identified 6 high-priority programs—such as the Weatherization Assistance Program and the SFSF education stabilization funds—which it expects may have some difficulty in fully complying with the accountability and transparency requirements in the Recovery Act. The board required that these high-priority programs submit comprehensive accountability plans for the board's review of Recovery Act activities. The board accepted the comprehensive accountability plans of the high-priority programs in December 2009. The board plans to establish an on-time audit process, assessment of needs for additional oversight, and a method to confirm Recovery Act information reported on the state's dashboard feature—a user-friendly search capability to provide detailed information on how and where Recovery Act funds are spent. Despite budget cuts and layoffs, the state is taking steps to achieve these goals, including the recent use of targeted site visits and recipient surveys.
- At the recommendation of State Audit and Department of Management officials, the Iowa Department of Public Health held additional training

on subrecipient reporting for high-priority programs and other Recovery Act programs on May 3, 2010. We reported in December 2009 that the U.S. Department of Justice and the DOE Office of the Inspector General provided training on federal procurement guidelines and fraud prevention on October 27, 2009.<sup>21</sup>

- In September 2009, we suggested that Iowa could use its “Results Iowa” Web site<sup>22</sup> to demonstrate how Recovery Act funding is affecting key performance measures, such as the state’s unemployment and other key economic indicators.<sup>23</sup> We also suggested that Iowa could integrate information from the Results Iowa Web site with its Economic Recovery Web site’s proposed dashboard feature. In response, a senior official from the Office of the Governor said that the state has yet to act on the suggestion because funding and staff capacity in Iowa’s state government are very stressed with other components of Recovery Act implementation. The official said that the state hopes to expand Recovery Act accountability and transparency mechanisms as time and resources allow.

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## Iowa Reported on Jobs Funded Using Recovery Act Funds

Iowa’s centralized database and validation and certification processes have helped to ensure the accuracy of data, reported jobs, and other information related to the use of Recovery Act funds to the federal government, as described below:

- On October 10, 2009, January 15, 2010, and April 10, 2010, Iowa submitted detailed reports to the federal government on the Recovery Act funds that the state received directly from federal agencies, including Recovery Act expenditures and the number of jobs funded by the Recovery Act. The Iowa Department of Management used a centralized database, created by Department of Management and Department of Administrative Services personnel, to report Iowa’s Recovery Act information to [www.federalreporting.gov](http://www.federalreporting.gov). The centralized database calculated the quarterly number of jobs on the basis of data, such as the number of hours worked reported by state

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<sup>21</sup>GAO, *Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

<sup>22</sup> <http://www.resultsiowa.org>

<sup>23</sup>GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Appendixes)*, [GAO-09-1017SP](#) (Washington, D.C.: Sept. 23, 2009).

agency and locality officials, and divided hours worked by 520, one-quarter of a 2,080 hour work year. State officials told us that they used a centralized database to help ensure the accuracy and consistency of the information reported. However, some localities, such as public housing and urban transit agencies, which receive their funding directly from federal agencies and not through the state, report Recovery Act information to [www.federalreporting.gov](http://www.federalreporting.gov) and not through the state's centralized reporting database.

- The development of the centralized database was facilitated by the Iowa Recovery Act implementation executive working group. This working group was created in March 2009 to provide a coordinated process for (1) reporting on Recovery Act funds available to Iowa through various federal grants, and (2) tracking the federal requirements and deadlines associated with those grants. A larger implementation working group—made up of representatives from 24 state agencies—is led by the executive working group and assisted by groups focused on implementation topics such as budget and tracking, intergovernmental coordination, and communication.
- Iowa officials told us that they developed internal controls to help ensure that the data submitted to federal entities are accurate. Specifically, Iowa inserted validation processes in the database to help identify and correct inaccurate data as they were entered. Officials told us that these validation processes generally worked and identified inaccuracies in the data. In addition, state agency and locality officials were required to certify their review and approval of their agency's information before submitting it to the state's centralized database and the federal Web site. These certifications are intended to help ensure responsibility for accurate information.
- In February 2010, an official from the state's accounting office reconciled Recovery Act revenues and expenditures reported in the state's centralized accounting system for departments that use the system. Some state agencies, such as the Board of Regents, do not report to the state's centralized accounting system. Accordingly, the state does not reconcile Recovery Act revenue and expenditure data for those agencies. The Chief Financial Officer for the Iowa Department of Education said that he reviews the Department of Administrative Services' monthly financial reports for the Iowa Department of Education to verify fund disbursements to the Board of Regents.

- The recipient report reconciliations prepared by state accounting personnel identified variances between the revenues and expenditures reported to the federal government and the amounts reported in the state's centralized accounting system. The analysis of the variances will help accounting and department officials correct recipient reports and accounting records. However, the reconciliations do not summarize the amounts and reasons that reports and the accounting records were misstated. As a next step, Iowa could summarize these reconciliations to assist state officials in identifying which departments have problems meeting their recipient reporting requirements and identify areas where subrecipients need additional training. Summarizing reconciliations could also help Iowa officials identify systemic reporting problems affecting multiple departments. When we raised this matter to state officials, they said that they thought such an analysis would be useful and said that they would work to implement it in the future as resources allow.
- In the April 2010 reporting period, state officials said that their centralized reporting process worked well. As of April 8, 2010, 2 days prior to the reporting deadline, approximately 99 percent of the prime recipient reports submitted by the state of Iowa were successfully validated by OMB. An Iowa state official noted that the system illustrates for the public how Recovery Act funds are spent and believes the system could be useful in reporting the use of non-Recovery Act funds in the future.
- Each quarter, recipients of Recovery Act funds are required to report jobs funded by the Recovery Act. OMB and the state of Iowa have both provided guidance on how to report on jobs funded. Iowa's most recent reporting guidance, distributed on February 26, 2010, directed fund recipients to report hours by either (1) summing up the hours worked each pay period in the quarter or (2) counting the total days worked each quarter and multiplying by 8, or some portion thereof for less than full-time employees. For the reporting cycle ended March 31, 2010, we reviewed selected education and housing entities to document the methods that entities use to calculate hours worked. We visited four local recipients—the Des Moines Independent Community School District, the Heartland Area Education Agency, the Des Moines Municipal Housing Agency, and Iowa State University—where we noted that the methods used to calculate hours varied. We found that the Des Moines Independent Community School District and Iowa State University estimated hours worked by dividing each employee's quarterly salary by an average hourly salary or wage rate. The average hourly salary was determined based on employee contracts. For

example, the Des Moines Independent Community School District calculated an average hourly wage for teachers based on a 195-day teacher's contract, and Iowa State University calculated an average hourly salary for instructors and administrators based on a 260-day full-time contract. The Heartland Area Education Agency reported an estimate of actual hours worked based on a standard teacher contract calendar of work days, which excludes holidays and other school breaks. It was able to do so because it has fewer than 100 employees. The Des Moines Municipal Housing Agency reported actual hours worked based on Davis-Bacon payroll reports supplied to them by the contractor. The Heartland Area Education Agency reports estimated actual hours worked so it reports few or no hours worked during the summer months for employees working a standard school year calendar. The Des Moines Independent Community School District and Iowa State University report hours based on salaries paid over a 12-month period, which means they report hours worked during the summer regardless of whether the employees are working. Although all four methodologies appear to be reasonable, the reported hours worked, based on the methodologies, could be different raising questions about the consistent reporting of jobs data.

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## State Comments on This Summary

We provided the Governor of Iowa with a draft of this appendix on May 4, 2010. The Director, Iowa Office of State-Federal Relations, and the Deputy Director of the Iowa Department of Economic Development, responded for the Governor on May 7, 2010. Officials agreed with our findings. The officials also offered technical suggestions, which we have incorporated, as appropriate.

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## GAO Contact

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## Staff Acknowledgments

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# Appendix IX: Massachusetts

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## Overview

This appendix summarizes GAO's work on its most recent review of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in Massachusetts. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

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## What We Did

GAO's work in Massachusetts focused on (1) the commonwealth's use of Recovery Act funds for selected programs, (2) the approaches taken by Massachusetts agencies to ensure accountability for Recovery Act funds, and (3) impacts of these funds. We reviewed several specific programs funded under the Recovery Act in Massachusetts related to highway, transit system, clean water, drinking water, and housing projects, and education and worker training programs. We selected the programs we reviewed because all have significant funds being expended at this point and several had recent obligation deadlines, as discussed below. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

Our work was performed at state agencies responsible for implementing the programs, and also at some localities. We followed up on ongoing Recovery Act projects at two regional transit agencies—the Massachusetts Bay Transportation Authority and the Greater Attleboro Taunton Regional Transit Authority. For our review of public housing, we contacted four public housing agencies in Cambridge, Clinton, Lowell, and Taunton. Our review of state revolving fund spending included visits to two subrecipients—the Massachusetts Water Resources Authority (MWRA) and the town of Spencer. We also visited two local workforce areas with worker training programs—Boston and Bristol.

Finally, we continued to track the use of Recovery Act funds for state and local fiscal stabilization. We visited two Massachusetts cities—Worcester and Everett—to determine the amount of Recovery Act funds each is receiving and how those funds are being used as they deal with their difficult fiscal situations. Both cities are receiving Recovery Act funds under several programs, including funding for public safety expenses. We also followed up with two other cities—Boston and Springfield—which we had visited in fall of 2009.

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

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## What We Found

- **Recovery Act education programs.** Under the Recovery Act, Massachusetts has been awarded funding through three major education programs, the largest of which is the State Fiscal Stabilization Fund (SFSF) with an allocation of \$994 million. Unlike previous reporting periods, local educational agencies (LEA) did not report any SFSF expenditures or jobs to Recovery.gov for the period ending March 31, 2010, according to state officials. They also said that the state did not receive the second phase of SFSF funding until late March, and as a result, the funds were not available to LEAs until April. During the same reporting period, a community college we contacted said that they used SFSF funds to pay for staff salaries and utility costs, among other things. The rate of draw down of funds varies among the major education programs. As of April 16, 2010, the commonwealth had drawn down more than half of its SFSF funds and less than a third of the other two program funds. Massachusetts has recently expanded its SFSF oversight plan to include a supplemental audit of selected school districts. In addition, the commonwealth has recently applied for another source of Recovery Act funding through the School Improvement Grant (SIG) program, but its submission was delayed in order to integrate federal and state requirements.
- **Highway infrastructure investment.** Massachusetts has met the March 2, 2010, obligation deadline for Recovery Act federal-aid highway funds. A total of \$378.2 million has been obligated for 84 projects—several paving improvement projects as well as projects that may promote economic and business development—and \$59.7 million has been transferred to the Federal Transit Administration (FTA) for eligible projects. On average, bids for highway projects were 15-20 percent below state cost estimates. Massachusetts lags behind the national average on its reimbursement rate, an indicator that it is not expending funds as quickly as most other states. State officials raised concerns about Massachusetts's ability to meet its highway maintenance of effort requirement as a result of construction season timing and an increase after recertifying its required commitment in March 2010.
- **Transit Capital Assistance funds.** The \$290 million in Transit Capital Assistance funds that were apportioned to Massachusetts and urbanized areas in the commonwealth were obligated by the March 5, 2010 deadline. Massachusetts transit agencies are using their Recovery Act funding to finance a variety of fleet enhancements and capital improvement projects designed to enhance customer service and improve safety. In addition, \$59.7 million was transferred from the Federal Highway Administration (FHWA) to FTA for use by several of

the commonwealth's regional transit agencies for their operating costs as well as many of their planned Recovery Act capital expenditures. The two transit agencies we visited used construction management firms to expedite project implementation, although their use requires transit agencies to consider potential increased risks related to higher costs and more remote oversight.

- **Public Housing Capital Fund.** Public housing agencies in Massachusetts were allocated about \$82 million in Public Housing Capital Fund formula grants under the Recovery Act. All public housing agencies in the commonwealth met the March 17, 2010, deadline for obligating 100 percent of these funds, and as of May 1, 2010, housing agencies had expended \$28.5 million. Many housing agencies used the funds to accelerate projects that were already on their 5-year capital plans, ranging from window replacement and landscaping to substantial rehabilitation of multiple units of housing. Some are using Recovery Act funds to permanently transfer state-supported housing units to their portfolios of federally-supported housing. The Massachusetts Department of Housing and Community Development (DHCD) estimates that this process could result in the commonwealth receiving an additional \$10 million in federal operating subsidies annually in the future.
- **Clean Water and Drinking Water State Revolving Funds (SRF).** Massachusetts received about \$185 million in Recovery Act funds through its Clean Water and Drinking Water SRFs and met the Recovery Act's deadline of February 17, 2010, to have its 115 selected projects under contract.<sup>2</sup> These ranged from rehabilitation of a 70-year old water transmission line to green projects enhancing energy efficiency and producing renewable energy. Massachusetts provided nearly all the Recovery Act funding in the form of "principal forgiveness," meaning that the portion of projects funded with Recovery Act money—about 12 percent of clean water projects and 20 percent of drinking water projects—will not need to be repaid. Further, for green projects, none of the funds will need to be repaid.

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<sup>2</sup>In addition to these funds, the state also received \$1,343,900 in funding for section 604b Water Quality Management Planning. In this report we use the word "project" to mean an assistance agreement, i.e., a loan or grant agreement made by the state revolving fund program to a subrecipient for the purpose of a Recovery Act project.

- **Workforce Investment Act of 1998 (WIA) Dislocated Worker Program.** Massachusetts was allotted about \$21 million in WIA Dislocated Worker funds. The commonwealth distributed 60 percent of these funds to the local workforce areas and retained the balance. As of March 31, 2010, the commonwealth had drawn down at least \$7.5 million of its Recovery Act allotment. Guided by the commonwealth, local areas have used most of their Recovery Act funds to place more workers in training. From the date the commonwealth started using Recovery Act WIA funds through January 31, 2010, about 2,300 dislocated workers received training under Recovery Act or regular WIA funds. Local areas have taken steps to address the U.S. Department of Labor's (Labor) Recovery Act priorities, such as training for green jobs.
- **Massachusetts government's and cities' use of Recovery Act funds.** The commonwealth of Massachusetts continues to experience budget pressures resulting from multi-year revenue shortfalls along with caseload growth in some of its programs. Because of the unexpected levels of revenue decline, Massachusetts accelerated the use of Recovery Act funds that freed up funds for other uses, but has taken steps to prepare for when Recovery Act funds are no longer available. Cities we visited also discussed fiscal difficulty and reported using Recovery Act funds to prevent layoffs of teachers, police, and firefighters. They reported preparing for the challenges they face as Recovery Act funds end; some pointed to new sources of funds, including hotel and meals taxes and careful use of Recovery Act funds on projects that would not require sustained funding.
- **Oversight and accountability efforts.** The Massachusetts Office of the State Auditor has several Recovery Act audits underway and is incorporating Recovery Act-related work into all its regular audits, including the state's Single Audit. Similarly, the state Inspector General is focusing efforts on investigating Recovery Act programs. Localities we spoke with utilize the Single Audit process to audit Recovery Act funds, although SFSF funds were the only Recovery Act funds that these local entities reported addressing during the recently completed 2009 audits. Areas addressed so far related to the WIA Youth Program and to SFSF.

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## Massachusetts Expands Oversight of a Large Education Program and Applies for Recovery Act Funding from Another Program

Through the Recovery Act, Massachusetts has been awarded education-related funds through three major programs:

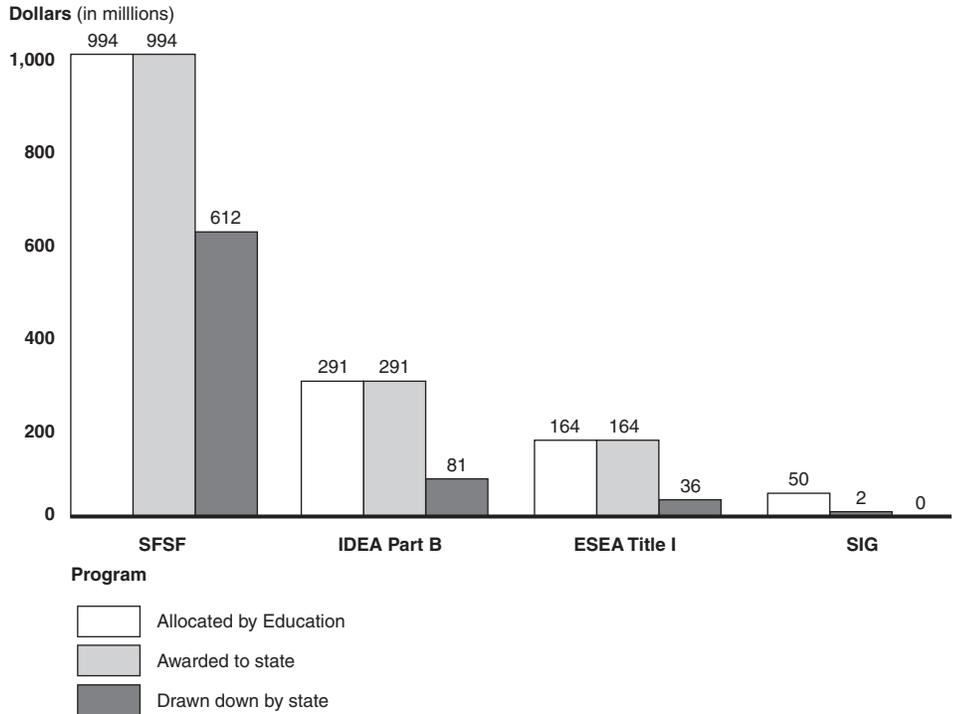
- SFSF, which is divided into education stabilization and government services funds;
- Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA); and<sup>3</sup>
- Individuals with Disabilities Education Act, as amended, (IDEA) Parts B and C.

In addition to these funds, Massachusetts has been allocated funding through the Recovery Act for SIG. The U.S. Department of Education (Education) recently made available 5 percent of the commonwealth's SIG allocation for planning purposes, the maximum amount allowed for administration, technical assistance, and evaluation. (See fig. 1 for more information on select funds awarded to Massachusetts.)

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<sup>3</sup>Moreover, state educational agencies may reserve an additional percentage of Recovery Act ESEA Title I, Part A funds (0.3 or 0.5 percent, depending on whether the state educational agency requests waivers of certain requirements) to help defray the costs associated with data collection and reporting requirements under the Recovery Act.

**Figure 1: Financial Information on Four Recovery Act Education Programs as of April 16, 2010**



Source: GAO analysis of Education and state reported data.

Unlike previous reporting periods, LEAs did not have SFSF funds available and so did not report any SFSF expenditures or jobs to Recovery.gov for the period ending March 31, 2010, according to state officials. They also said that the commonwealth did not receive the second phase of SFSF funding until late March, and as a result, the funds were not available to LEAs until April. One LEA told us that it plans to reallocate some of these funds to cover salary expenses for staff who worked during the previous reporting periods. State officials acknowledged this approach and said that they expect a significant increase in the number of jobs reported during the period ending June 30, 2010. Meanwhile, other entities did report SFSF expenditures for the period ending March 31, 2010. Officials from a community college we contacted said that they used SFSF education stabilization funds to pay for staff salaries and utility costs, among other things. Further, some SFSF government service funds were used to support staff at local fire departments and state police services.

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## Massachusetts Expands its SFSF Oversight Plans

The Massachusetts Executive Office of Education expanded its SFSF oversight efforts to include a supplemental audit of select LEAs. In December 2009, we reported that the office planned to primarily use the Single Audit to monitor SFSF expenditures.<sup>4,5</sup> However, state officials said that the U.S. Department of Education recently made it clear that oversight efforts beyond the Single Audit were necessary. According to the draft monitoring plan the Massachusetts Executive Office of Education submitted on March 12, 2010, the commonwealth has several SFSF oversight activities planned, including a supplemental audit that aims to verify reported expenditures, identify ineligible expenses, and assess the consistency of reported data. According to state officials, this new audit will provide a more detailed review of SFSF funded transactions than the Single Audit process. State officials said that they plan on engaging a public accounting firm to conduct on-site reviews of at least 15 LEAs. Selected LEAs include recipients of the 10 largest SFSF grants, which represent more than a third of the SFSF funds provided to LEAs, and some other LEAs with previous audit findings. Federal education officials are currently reviewing Massachusetts' monitoring plan, and said they do not have a schedule for completing their review of state monitoring plans and will contact states whose plans are considered inadequate.

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## Massachusetts Applied for SIG Recovery Act Funding, but Its Submission Was Delayed

The commonwealth has recently applied for SIG Recovery Act funding, but its application was delayed in order to address differences between federal and state requirements. In order to receive nearly \$50 million in formula-based funding, the commonwealth recently provided Education with its SIG application, which lays out the information low-performing schools must provide when requesting SIG funding. However, according to state officials, the content and timing of recent state legislation

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<sup>4</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

<sup>5</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

complicated and ultimately delayed completion of this application by more than a month.<sup>6</sup> Both the state legislation and SIG program require that LEAs develop reform strategies for low-performing schools to implement in an effort to improve student achievement; however, the information LEAs must submit in each case varies. For example, state officials told us that the measurable annual goals required by SIG differ somewhat in number and substance from those required by the state legislation. In order to minimize the burden on LEAs, state officials integrated these varying approaches into a streamlined process for LEAs to follow whereby LEAs must only come up with one plan that would meet both state legislative and SIG requirements. According to state officials, this time and resource-intensive effort combined with the short time frame between the legislation's passage and Education's application deadline resulted in delayed submission of the commonwealth's application to Education.

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## Massachusetts Met Obligation Deadline for Recovery Act Highway Funds, but Questions Remain Regarding the Maintenance of Effort Requirement

Massachusetts has met the March 2, 2010, Recovery Act highway obligation deadline. As of this date, \$378 million of its \$438 million apportionment has been obligated to 84 projects—the majority of which are pavement improvement projects. Massachusetts continued to recommend projects that may promote economic and business development. For example, the commonwealth recommended that \$15 million be obligated to make roadway access and signal improvements to the Assembly Square Mall, in Somerville, Massachusetts. The remaining \$59.7 million of the highway apportionment was transferred to the Federal Transit Administration (FTA) for use by several of the commonwealth's regional transit authorities for their operating costs as well as many of their planned Recovery Act capital expenditures. The rate by which the Federal Highway Administration (FHWA) has reimbursed Massachusetts for Recovery Act highway projects (an indicator of the portion of highway work completed) has increased from 8.1 percent on October 31, 2009, to 13 percent on May 3, 2010—below the national average of 29 percent (see table 1).

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<sup>6</sup>2010 Mass. Acts Chap. 12, sec. 3.

**Table 1: Massachusetts Recovery Act Federal Aid Highway Amounts as of May 3, 2010**

Total available apportionment	Amount obligated	Amount transferred to FTA for use by regional transit agencies	Reimbursement rate
\$438 million	\$378.2 million	\$59.7 million	13%

Source: GAO analysis of FHWA data.

According to Massachusetts Department of Transportation (MassDOT) and FHWA Region I officials, on average, bids on the final round of advertised projects continued to come in 15 to 20 percent below state cost estimates, resulting in contracts being awarded below state cost estimates. As a result of these contract savings, MassDOT estimates that approximately \$24 million will need to be deobligated and has begun to develop a list of additional Recovery Act projects to which it may apply these contract savings to meet the September 30, 2010, obligation deadline. The MassDOT Economic Stimulus Coordinator told us that MassDOT will not have difficulty ensuring any contract savings are obligated by the deadline and funds may support roadwork on major, federal-aid eligible arteries in municipalities across the commonwealth.

**Massachusetts May Face Challenges Meeting Maintenance of Effort Spending Goals**

As a result of construction season timing and an increase after recertifying its maintenance of effort (MOE) commitment, the MassDOT Chief Financial Officer told us that, although it is too early to make a determination, the state may face challenges in meeting its MOE spending goals by the September 30, 2010, deadline.<sup>7</sup> In March 2010, Massachusetts recertified its MOE commitment to include \$300 million in state highway aid to local governments for state fiscal years 2010 and 2011. Although MassDOT officials feel they have committed to enough nonfederally funded projects to meet the MOE requirement, they explained that uneven spending caused by weather and the seasonal construction schedule throughout a year may result in the commonwealth not meeting the requirement. Massachusetts’s typical seasonal construction schedule may be affected by the winter construction shut down or a rainy spring. According to the MassDOT Chief Financial Officer, in calendar year 2009

<sup>7</sup>States were required to certify that they will maintain the level of spending that they had planned to expend between the date of enactment, February 17, 2009, and September 30, 2010.

approximately 40 percent of the commonwealth's highway expenditures took place in the fourth quarter (October to December). If this pattern is repeated, a significant portion of the commonwealth's highway construction expenditures would occur after the September 30, 2010, MOE deadline, and as a result, the commonwealth may not meet its MOE requirement. FHWA Region I officials have said that they continue to track the commonwealth's MOE spending and monitor their progress toward meeting the deadline.

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**Although Its Focus Is Not Recovery Act Impact, MassDOT Measures Agency Performance**

MassDOT and FHWA Region I officials said that they did not develop performance measures, other than a measure of jobs created, to assess the impact of Recovery Act highway projects. However, MassDOT monitors overall agency performance with periodic scorecard reports related to its different divisions. As part of the commonwealth's reorganization of MassDOT, the agency has begun to develop an Office for Performance Management. According to the MassDOT Economic Stimulus Coordinator, this office is in a nascent stage, but it will eventually focus on measuring the impact of MassDOT's entire portfolio of work. According to FHWA Region I officials, although not required by the Recovery Act, FHWA will be able to provide the number of highway miles improved with Recovery Act funding. Additionally, FHWA Region I officials told us they are working to assist the new MassDOT Office for Performance Management by bringing in best practices for performance management from other states' departments of transportation; it will focus on using asset management and budget health as tools to help manage MassDOT.

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**MassDOT Hires New Engineers for Recovery Act Field Oversight, but Project Planning and Contracting Oversight Staff Capacity May Be Strained**

The Recovery Act Federal-Aid Highway apportionment for Massachusetts has funded 84 new highway projects for the commonwealth. According to FHWA Region I officials, they have concerns about MassDOT highway staff capacity and are monitoring its staff resources, especially with regard to MassDOT's recent reorganization. An FHWA staffing review from 2003 expressed concerns over Massachusetts's state highway construction and materials staffing levels and training. According to MassDOT officials, in June 2009, MassDOT was approved to hire 100 full-time equivalents to conduct oversight and field inspection work related to construction of Recovery Act projects. As of April 1, 2010, according to the MassDOT Economic Stimulus Coordinator, MassDOT has officially hired 89 new employees to be placed in its highway district construction offices, with the majority of hires being entry-level civil engineers. According to the MassDOT Economic Stimulus Coordinator, Recovery Act project planning and contracting takes place at the MassDOT central office, and they have

not made any additional Recovery Act hires for this work. All of the central office project planning and contract oversight staff perform Recovery Act work in addition to their normal duties. The MassDOT Economic Stimulus Coordinator told us that a second round of stimulus money would present staff capacity challenges, as the volume of work related to planning and contract oversight at MassDOT's central office has increased as a result of the Recovery Act projects, the Accelerated Bridge Program and the state's regular federal-aid highway apportionment.<sup>8</sup>

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## Massachusetts Transit Agencies Met the 1-Year Obligation Deadline, but Use of Construction Management Firms May Pose Challenges

In March 2009, \$290 million in Recovery Act Transit Capital Assistance funds was apportioned to Massachusetts and urbanized areas in the state. FTA concluded that by the March 5, 2010, deadline, 100 percent of this apportionment had been obligated. Massachusetts transit agencies are using their Recovery Act funding to finance a variety of fleet enhancements and capital improvement projects designed to enhance customer service and improve safety. For example, the Massachusetts Bay Transportation Authority (MBTA) is using its \$181 million in initial Recovery Act Transit Capital Assistance funding to purchase new paratransit vans, expand bicycle parking, improve bus stop and train station amenities, and increase safety throughout the MBTA system. In addition, MBTA was able to use additional funding from money transferred from the commonwealth's federal-aid highway apportionment to fund projects that would not have been done without the Recovery Act funds. These projects include the installation of new wheel chair accessible ramps at the Wedgemere Commuter Rail Station in Winchester, Massachusetts and emergency repairs to the deteriorating floating slab system on the portion of the Red Line subway serving the cities of Cambridge and Somerville, Massachusetts.<sup>9</sup>

In addition to the Recovery Act Transit Capital Assistance apportionment, \$59.7 million of Massachusetts's federal-aid highway apportionment was transferred from FHWA to FTA. The transfer of these additional funds enabled several transit agencies to use Recovery Act funds for their operating costs as well as many of their planned Recovery Act capital

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<sup>8</sup> In May 2008, the commonwealth introduced the \$3 billion Accelerated Bridge Program to reduce the commonwealth's growing backlog of structurally deficient bridges.

<sup>9</sup> A floating slab consists of a concrete slab supported by rubber-like material or steel-coil springs designed to reduce noise and vibration levels. Deterioration of a floating slab system has the potential to become a significant safety hazard.

expenditures. After transit agencies had submitted their Transit Capital Assistance applications, they were granted the authority to use up to 10 percent of their Recovery Act apportionment for operating expenses.<sup>10</sup> These operating expenses were funded by reducing the funds originally committed for capital expenses by 10 percent. For example, the Greater Attleboro Taunton Regional Transit Authority (GATRA), one of the transit agencies we spoke with, told us that they made line-item reductions to capital expenditures in their original grant in order to fund operating expenses. According to these officials, the flexibility to amend the original grant to include operating expenses has helped them avoid cutting both staff and service. In addition, these officials told us that the portion of the transferred funds that they will receive will be used to backfill some of the line-item reductions in their original grant and will allow them to replace buses that have been in operation since 1994.

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**Massachusetts Transit  
Agencies Used  
Construction Management  
Firms to Supplement and  
Expedite Project  
Implementation**

In order to handle the influx of Recovery Act funds and the requirement that projects funded under the act be implemented quickly, Massachusetts transit agencies used construction management/project management (CM/PM) firms to supplement their internal project management staffing resources. According to transit officials, there are several advantages in using private consulting firms to provide CM/PM services, including that they are a source of additional expertise and provide transit agencies with the flexibility to supplement internal staff on a temporary basis in response to increased workloads. For example, the spike in capital spending resulting from the Recovery Act exceeded MBTA's capacity to manage this work without additional resources. As a result, MBTA used a CM/PM firm to provide project and construction management support for several of its Recovery Act projects because officials determined it was not prudent to "staff up" for the 2 years that Recovery Act projects would be ongoing. Smaller transit agencies, which typically do not have the capacity to manage capital projects, also used CM/PM firms to manage their Recovery Act projects.

Our previous work on states' increased use of contractors to oversee highway projects found that state officials generally perceive contracting

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<sup>10</sup>Under the Supplemental Appropriations Act, 2009, recipients and subrecipients of the Transit Capital Assistance Urbanized Area Program funds and the Transit Capital Assistance Nonurbanized Area Program funds may use up to 10 percent of the amount apportioned for operating expenses. Pub. L. No. 111-32 § 1202 (June 24, 2009).

out to be more expensive than using internal staff to oversee projects.<sup>11</sup> Similarly, transit officials we spoke to on this work believe that using CM/PM firms to manage their Recovery Act projects is likely to be more costly than managing these projects internally. Officials from FTA and MBTA told us that they believed this to be true for transit projects, as well, although they were not aware of any formal assessment comparing the cost of projects managed by private firms with projects managed internally. While government employees are always ultimately responsible for the oversight of federally-funded projects, they may be increasingly further removed from the day-to-day project oversight when they use private firms to do this work. Although transit agencies' use of CM/PM firms in response to temporary spikes in demand for construction services seems appropriate, in order to ensure the best use of Recovery Act funds, it is important that transit agencies that hire these firms give appropriate consideration to the identified areas of potential risk, such as those related to the increased cost and the adequacy of oversight of projects managed more remotely.

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### Although Not Required by FTA, Transit Agencies Use Qualitative Measures to Assess the Impact of Recovery Act Funding

MBTA and GATRA are able to provide a qualitative assessment of improvements to local transit systems that resulted from the increase in federal transit spending, but other than measuring jobs created, they have not developed metrics specifically for measuring the impact of Recovery Act funds. GATRA and MBTA officials said that other than measuring jobs created and project status, FTA does not mandate additional measures beyond the requirements for all formula grant programs. MBTA is measuring Recovery Act impact in terms of jobs, contracts awarded and expenditures, but officials also report that the projects funded under the act provide significant benefits to their customers, while addressing safety issues. GATRA officials told us that they have qualitative evidence of the positive impact on customer service and the overall efficiency of their operations, but they do not have a set of metrics for quantifying these results. For example, renovations made to the Attleboro Commuter Rail Station have addressed critical safety and liability issues and are expected to reduce utility bills.

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<sup>11</sup>GAO, *Federal Aid Highways: Increased Reliance on Contractors Can Pose Oversight Challenges for Federal and State Officials*, [GAO-08-198](#) (Washington, D.C.: Jan. 8, 2008).

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## Local Housing Agencies Met Obligation Deadline for Formula Funds, and Some Are Using These Funds to Federalize State Housing

Sixty-eight housing agencies in Massachusetts were allocated a total of \$81.9 million in Public Housing Capital Fund formula grants under the Recovery Act.<sup>12</sup> All 68 housing agencies obligated 100 percent of their formula funds by March 17, 2010, the deadline to obligate all funds and avoid recapture by the federal government. As of May 1 2010, 57 of the 68 housing agencies had drawn down \$28.5 million in formula grants. We contacted local housing agencies in four Massachusetts communities—Cambridge, Clinton, Lowell, and Taunton—as well as the Department of Housing and Urban Development’s (HUD) Boston field office and DHCD.

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## Housing Agencies Met Obligation Deadline, Often by Accelerating Already Planned Projects

All housing agencies met the deadline, although they had just 1 year to obligate 100 percent of their Recovery Act Public Housing Capital Fund formula grants, compared to the 2-year time frame for obligating regular Capital Fund grants. According to officials from HUD’s Boston field office, many housing agencies were able to obligate their funds quickly because they are using Recovery Act funds primarily to accelerate projects that were already on their 5-year capital plans and required little additional development. Of the housing agencies we visited, two used Recovery Act funds mainly to accelerate already planned projects that required minimal additional planning. For example, Clinton Housing Authority officials said they are using their entire Recovery Act allocation to speed up the completion of a multiphase window replacement project that had already been started with regular Capital Fund grant dollars and required no additional planning. While the Cambridge Housing Authority opted to use Recovery Act funds for a large project on its capital plan, that project had not yet been designed and required considerable additional work to develop. Officials told us they accelerated this project to take advantage of the fact that projects funded entirely by the Recovery Act are procured under federal rather than state procurement law. They said Massachusetts procurement requirements are more onerous than federal requirements, and include, for example, time-consuming separate sub-bids for specific trades.

The Buy American provision in the Recovery Act was cited as a challenge by two of the housing agencies we contacted, but not necessarily one that

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<sup>12</sup>In addition, a total of \$72.7 million in competitive grants was awarded to seven housing agencies in Massachusetts.

delayed the obligation of Recovery Act funds. Lowell Housing Authority officials, for example, said it could be difficult to find materials and products that are purely U.S.-made, as many products are assembled in the United States but include some component parts that were produced overseas.<sup>13</sup> Cambridge Housing Authority officials said they are having trouble finding energy efficient heating systems and refrigerators that are made in the United States, and may apply for a waiver from the requirement.

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**Federalization of State Housing Will Result in Higher Federal Spending in the Future, although Several Factors Limited the Extent of Federalization**

Eighteen housing agencies in Massachusetts are taking advantage of a provision in the Recovery Act allowing the use of Recovery Act funds to permanently transfer state-supported housing units to the agencies' portfolios of federally-supported housing—a process known as federalization. According to DHCD, housing agencies in Massachusetts are federalizing about 3,600 of the approximately 55,000 units of state-supported housing units in the commonwealth. Federal legislation passed in 1998 prohibited housing agencies from increasing their total counts of federally-supported public housing units.<sup>14</sup> The Recovery Act lifted this restriction specifically with regard to the use of Recovery Act funds.

HUD indicated, in guidance issued in the spring and summer of 2009, that the Recovery Act lifted the prohibition on adding new units of federally supported housing when only Recovery Act and no other federal housing funds are used. A housing agency in Massachusetts—a state that funds public housing—identified that by lifting the restriction on increasing their total number of federal housing units, the Recovery Act allowed housing agencies to transfer state-supported housing to their portfolios of federal housing. Officials from DHCD and two local housing agencies told us federalization is a good option because the federal government provides higher and more stable funding for public housing than the commonwealth. Additionally, several housing officials said the majority of residents will see no negative consequences as a result of federalization.<sup>15</sup>

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<sup>13</sup>According to HUD notice PIH 2009-31, component or subcomponent parts may be from other countries as long as the components and subcomponents are assembled into manufactured goods in the United States.

<sup>14</sup>Pub. L. No 105-276, title V, 112 Stat. 2461 (Oct. 21, 1998).

<sup>15</sup>Some housing agency officials told us that a small portion of residents of state-funded housing will pay higher rents after their units are federalized because the federal and state governments have different deductions from the income that is counted in calculating rent.

Federalization will result in higher future levels of federal subsidies for public housing in Massachusetts, although the total additional commitment is not yet clear. DHCD officials estimate that federalization will bring an additional \$10 million annually in federal operating subsidies to the commonwealth, as well as additional capital subsidies that cannot be easily estimated. DHCD officials said the commonwealth plans to maintain its current level of state spending for public housing, with state funds being distributed across a smaller number of state units.

HUD's headquarters office and Boston field office developed procedures for federalizing state housing, after this opportunity had been identified. First of all, HUD determined that the Recovery Act allows housing agencies to add state housing developments to their federal portfolios by using Recovery Act funds to rehabilitate these developments.<sup>16</sup> HUD then set two main conditions that housing agencies had to meet to federalize: (1) the state units must meet HUD's Uniform Physical Condition Standards after they have been rehabilitated with Recovery Act funds and (2) housing agencies must spend an average of \$2,000 per unit or more in Recovery Act funds to rehabilitate a state housing development. Officials from HUD's Boston field office inspected all housing developments that housing agencies proposed to federalize, to assess the condition of these developments relative to the federal standards. (See fig. 2 for an example of one housing agency's federalization project.)

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<sup>16</sup>The regulations governing this process are at 24 CFR 941.

**Figure 2: Federalization of State Housing Development in Taunton**

The Taunton Housing Authority is using its \$615,072 allocation of Recovery Act capital funds to federalize 232 units of state-supported housing in three housing developments for the elderly. For example, the Taunton Housing Authority will federalize its Fitzsimmons Arms development by using Recovery Act funds to replace an aging boiler and heating units with more up-to-date, energy efficient models.



Boiler to be replaced



Heating unit to be replaced

Source: GAO.

Despite the benefits they perceived from federalization, housing agencies faced challenges that prevented some from acting on this opportunity. These challenges stemmed partly from the timing of when housing agencies learned about this opportunity. DHCD sent a memo to all housing agencies in the commonwealth in August 2009, informing them that federalization was a possibility. However, according to HUD officials, many housing agencies had already obligated all or most of their Recovery Act funds by the time they heard about federalization, and were unable to reprogram their funds. Taunton Housing Authority officials told us they were able to federalize primarily because they heard very early on about federalization—before DHCD’s memo—and immediately stopped their originally planned obligation of Recovery Act funds. Furthermore, the short time frame between the HUD Boston field office’s issuance of guidance on federalization (October 28, 2009) and the deadline for submitting proposals (November 23, 2009) made it difficult for housing agencies to prepare applications, according to one HUD official and one housing agency we spoke with. Finally, state officials told us that some housing agencies did not have state housing developments that could be relatively quickly and easily brought into compliance with HUD Uniform Physical Condition Standards, because of the unstable state subsidies for

housing.<sup>17</sup> Clinton Housing Authority officials, for example, cited problems such as lead paint and out-of-date heating systems as being among the reasons they could not federalize state-supported housing within the allowed time frame.

## Recovery Act Funding Supports Improvements for Clean and Safe Drinking Water

The Massachusetts Department of Environmental Protection, working in collaboration with the Massachusetts Water Pollution Abatement Trust, has selected 115 clean water and drinking water projects to receive about \$178 million in Recovery Act funds through its SRF (see table 2).<sup>18</sup>

**Table 2: Recovery Act Funding for Massachusetts SRF Projects**

Type of projects	Recovery Act funds		“Green” projects	
	Dollars	Number of projects	Dollars	Number of projects
Clean water projects	\$127,735,008	61	\$54,287,508	11
Drinking water projects	50,127,360	54	12,580,834	10
<b>Total</b>	<b>\$177,862,368</b>	<b>115</b>	<b>\$66,868,342</b>	<b>21</b>

Source: GAO analysis of U.S. Environmental Protection Agency and Massachusetts data.

The Clean Water and Drinking Water SRF programs generally provide low interest loans for water quality protection projects. Massachusetts provided nearly all the Recovery Act funding in the form of “principal forgiveness,” meaning that the portion of projects funded with Recovery Act money—about 12 percent of clean water projects and 20 percent of drinking water projects—will not need to be repaid. Further, for green projects, none of the funds will need to be repaid.<sup>19</sup>

<sup>17</sup>In a 2006 audit report, the Massachusetts Office of the State Auditor found that inadequate funding by the state has contributed to significant deterioration in the conditions of state-supported housing developments.

<sup>18</sup>According to Massachusetts officials, of the \$185 million received in Recovery Act funds, over \$7 million is being used for program administration with the remainder spent on projects.

<sup>19</sup>“Green” projects are those that promote green infrastructure (which can reduce, capture, and treat stormwater runoff at its source before it reaches the sewer system) and energy or water efficiency. Green projects also include demonstrations of new or innovative ways to manage water resources in a sustainable fashion.

State officials and officials at two sites we visited reported several benefits they expected from Recovery Act-funded projects.<sup>20</sup> Benefits of projects we reviewed are described in table 3.

**Table 3: Uses and Amount of Recovery Act Funding at Sites Visited**

Entity	Project description	Recovery Act funding
MWRA	Lower Hultman Aqueduct: Rehabilitation in order to restore it to safe operation after more than 70 years of service without an overhaul. This project will result in two independent, reliable, and fully interconnected water transmission lines.	\$3,602,688
MWRA	DeLauri Wind Turbine Project: Installation of new wind turbine at a wastewater pumping facility intended to utilize renewable power resources. As a green project, estimated to provide 100 percent of the energy needs of the pump station.	4,750,000
Town of Spencer	Drinking Water System: Construction of new 500,000 gallon water tank, installation or replacement of 2.75 miles of water main and various treatment plant improvements, such as a new monitoring system to prevent future public health emergencies. Malfunction of this system in 2007 led to the release of a hazardous amount of sodium hydroxide (lye) into the town's water supply.	1,495,872

Source: MWRA, Town of Spencer and U.S. Environmental Protection Agency data

For example, officials told us that Recovery Act funding accelerated their ability to support green projects which would not have been funded otherwise. Massachusetts placed a special emphasis on green projects—described by officials as providing benefits through renewable energy and energy efficiency. Of the 21 green projects, 14 had already been identified as part of an earlier state energy pilot. Recovery Act funding also supported the undertaking of multimillion dollar projects with multiple benefits. For example, MWRA officials described the Lower Hultman Aqueduct Project, which will rehabilitate a 70-year old water transmission line, as critical to public health and homeland security. In addition to the direct benefits of these projects, municipalities benefited from reductions in payments on loans. For example, the MWRA estimates that because of the loan forgiveness funded by Recovery Act money, it will save \$41 million in debt service payments, including interest costs.

Massachusetts officials told us that federal requirements and new state legislation posed challenges in meeting Recovery Act SRF deadlines or may pose challenges going forward. For example, state officials cited the Recovery Act's requirement that each state prioritize funds for use on projects that are ready to proceed to construction within 12 months of

<sup>20</sup>We visited the town of Spencer, a new SRF recipient, which received funds for one project, and the MWRA, which received funding for multiple projects.

enactment of the act (by February 17, 2010) and compliance with the Recovery Act's Buy American requirements. According to Massachusetts officials, confusion over the U.S. Environmental Protection Agency's Buy American guidance meant that some SRF projects had to redo project specifications to include American pipes after already purchasing Canadian pipes. The agency developed a process for recipients to provide documentation supporting a waiver to the Buy American provision in the Recovery Act. This provision generally requires the use of U.S.-produced iron, steel, and manufactured goods in public works projects.<sup>21</sup> As a result, to construct the wind turbine at the DeLauri Pump Station, MWRA had to document why the turbine needed to be purchased from China, and described additional MWRA efforts needed to support the waiver. Other issues that may pose challenges relate to requirements in Massachusetts statutes. For example, officials said that a state statute requires that on any Recovery Act public works project spending more than \$1 million, the use of on-site apprentices must account for 20 percent of labor hours.<sup>22</sup> MWRA anticipated that some contractors would find complying with this requirement a challenge. State officials also said that agreements on funding were delayed by the need to change a Massachusetts statute that had previously set limits on financial assistance.<sup>23</sup>

Both state and local officials noted that new controls have been established for accountability of Recovery Act funding. Massachusetts environmental officials said they have developed tools for monitoring fraud, waste, and abuse, such as a checklist to document that proper fiscal and contract management procedures are being followed. In addition, the Massachusetts Department of Environmental Protection has designated a compliance officer to help implement its fraud, waste, and abuse policy. The Water Pollution Abatement Trust also hired a compliance officer to

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<sup>21</sup>Section 1605 of the Recovery Act permits the provision of a waiver by the head of an appropriate agency, here EPA, under certain circumstances. Pub. L. No. 111-5, 123 Stat. 115.

<sup>22</sup>2009 Mass. Acts ch. 30, § 33 (An Act Mobilizing Economic Recovery in the Commonwealth).

<sup>23</sup>2009 Mass. Acts ch. 30, § 12 (An Act Mobilizing Economic Recovery in the Commonwealth). According to a Massachusetts official, before passage of this act, the Massachusetts Water Pollution Abatement Trust was not authorized to provide any principal forgiveness, grant, or loan interest rate except 2 percent for 20-year terms, but the act authorized the trust to adapt the financing structure to conform to the Recovery Act requirements.

assist with the review of single audits required for SRF loan recipients receiving principal forgiveness.

## Localities Used Recovery Act Funds to Train More Dislocated Workers, and Addressed Some New Program Priorities

Massachusetts received \$21.2 million in WIA Dislocated Worker Recovery Act funds, through the same statutory formula used to distribute regular WIA Dislocated Worker Program funds. The Massachusetts Executive Office of Labor and Workforce Development (EOLWD) distributed 60 percent of this allotment to the 16 local workforce areas, with the remaining funds set aside for rapid response activities to address layoffs and plant closings, and other statewide activities (see table 4). As of March 31, 2010, the commonwealth had drawn down at least \$7.5 million of its Recovery Act funds.<sup>24</sup>

**Table 4: Massachusetts' Uses of its WIA Dislocated Worker Funds**

State activity	Amount
Distributed to local areas	\$12,734,068
Rapid response activities	5,305,862
Statewide activities	3,183,517
<b>Total allotment<sup>a</sup></b>	<b>\$21,223,447</b>

Source: GAO survey of 50 states and the District of Columbia, conducted March to April 2010.

<sup>a</sup>Massachusetts reported that it also opted to transfer \$200,000 from its WIA Adult Recovery Act program allotment and use these funds for services to dislocated workers.

## Local Workforce Areas Used Recovery Act Funds to Increase the Number of Dislocated Workers Receiving Training

With the infusion of Recovery Act funds as well as increased demand for services, the number of dislocated workers trained in the commonwealth between July 1, 2009 and December 30, 2009 was 56 percent higher than in the corresponding period in the previous year, according to the EOLWD.<sup>25</sup> The EOLWD reported that from the date the commonwealth started using Recovery Act Dislocated Worker funds through January 31, 2010, about

<sup>24</sup>These are cash drawdowns from the U.S. Department of Health and Human Services' Payment Management System. Under the procedures for using these funds, funds are to be drawn down no more than 3 days in advance of paying bills. According to Labor, drawdown data for March 2010 may be significantly understated as a result of complications with the transition to a new accounting system. Labor is taking steps to correct these issues and expects to release accurate data by the end of May 2010.

<sup>25</sup>This comparison includes dislocated workers trained with regular and Recovery Act WIA funds.

2,300 dislocated workers received training through Recovery Act or regular WIA Dislocated Worker funds. Local workforce areas used their funds for training in accordance with state guidance, as EOLWD instructed local areas to spend at least 60 percent of their Dislocated Worker allocations for training and to spend their funds quickly. The local areas had expended over half of their funds by January 31, 2010, according to EOLWD.

The two local workforce areas we visited—Bristol and Boston—used at least 60 percent of their funds for training, and both addressed a high demand for training. The Bristol local area in southeastern Massachusetts had expended more than 90 percent of its \$1,100,223 allocation by January 31, 2010, and had enrolled 143 dislocated workers in training in whole or in part with its Recovery Act funds. Officials said the workforce area enrolled twice as many adults and dislocated workers in training as in a typical year; many in the area enter training for a Commercial Driver's License or in the health care field. Bristol also used Recovery Act funds to hire new staff to help serve the increased number of visitors to career centers and to reach out to employers. Boston had expended about two-thirds of its \$919,400 allocation by January 31, 2010, and had enrolled 100 dislocated workers in training in whole or in part with Recovery Act funds. Boston enrolled about 15 percent more dislocated workers in training during this program year compared to the previous program year. Boston officials said that the Recovery Act funds were critical to maintaining services for dislocated workers because the city saw a reduction in its regular Dislocated Worker funds for program year 2010 and that the city had obligated all of its regular Dislocated Worker funds that had been set aside for Individual Training Accounts (ITAs) by April 2009.

In terms of training approaches, EOLWD officials told us that while local workforce areas are primarily using Recovery Act funds for ITAs—through which individuals purchase training from, for example, community colleges and community-based organizations—seven are using some of their funds to contract for group training classes. A total of 122 dislocated workers are enrolled in contracted training through Recovery Act funds, according to EOLWD. Dislocated Worker funds provided through the Recovery Act may be used to provide training through contracts, which are authorized only in limited circumstances for regular WIA funds. Boston is using about one quarter of its Recovery Act training funds for contracts, for example for classes in health care and in English as a Second Language. A Boston official told us that contracts are helpful because they allow the local area to customize training classes for specific populations. Bristol used all of its training funds for ITAs. Officials said

that given the high demand for funds there was not enough time to develop training contracts.

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### Local Workforce Areas Took Some Steps to Address Labor's Recovery Act Priorities

Local areas have taken some steps to address the priorities emphasized by Labor in implementing the Recovery Act. For example, the local areas we visited have attempted to train for and place participants in green jobs, with mixed success. Bristol officials told us that enrolling participants in green jobs training has been challenging because there is no firm definition of a green job. Regarding supportive services, such as child care and housing, EOLWD officials said there has been little demand for such services, especially given the availability of benefits such as Unemployment Insurance. Officials at one Boston career center told us they do not have the resources to provide extensive supportive services to clients; primarily they provide public transit passes.

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### Recovery Act Funding Continues to Help Massachusetts State Government and Selected Localities with Fiscal Relief

Massachusetts state government continues to experience budget pressures driven primarily from multi-year revenue shortfalls, as well as caseload growth in some programs. Since the beginning of the Recovery Act, the commonwealth has addressed its fiscal year budget gaps through a combination of Recovery Act funds, spending reductions, use of "rainy day" funds, and the addition of new revenue sources such as an increase in state sales tax. Because of the unexpected magnitude of revenue decline, Massachusetts accelerated the use of Recovery Act funds, particularly the SFSF funds, which freed up funds for other purposes. For fiscal year 2011, the Governor's plan proposes using less Recovery Act funding to close its projected budget gap than was used during fiscal year 2010. According to a senior state official, relying less on Recovery Act funds is important to the state's bond issuing agencies, as well as to prepare for future budgets which will not include Recovery Act funds.<sup>26</sup> In addition, the Governor's plan includes \$608 million in increased FMAP funds based upon the state's expectation that Congress and the President will extend the temporary increase in the FMAP under the Recovery Act.<sup>27</sup>

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<sup>26</sup>The Governor's budget also includes a proposal to help prepare the state for future revenue volatility by smoothing out capital gains receipts and depositing capital gains revenue over a fixed dollar amount (\$1 billion) into its "rainy day" fund.

<sup>27</sup>State officials noted that if by June 1, 2010, Congress has not acted to extend the increased FMAP provision, the Governor plans to revise his fiscal year 2011 budget.

Overall, most of the \$6 billion Massachusetts officials expect to receive through the Recovery Act has been awarded. According to state documents, as of May 7, 2010, Massachusetts state government has been awarded \$5 billion in Recovery Act funds and has drawn down \$3.4 billion of this amount. Among the largest categories of Recovery Act funding have been increased Medicaid FMAP, SFSF, and highways and transit funding. State officials reported they anticipate future Recovery Act funds coming to the state through a Department of Energy grant for appliance rebates as well as additional money for Broadband expansion. Furthermore, Massachusetts hopes to receive funding for education through the “Race to the Top” grants.

We also visited the cities of Boston, Everett, Springfield, and Worcester (see table 5) to review their use of Recovery Act funds.<sup>28</sup>

**Table 5: Characteristics of Selected Local Governments**

Local government	Population	Unemployment rate (percentage)	Fiscal Year 2010 operating budget	Full-time equivalent government employees
Boston	609,023	8.1 %	\$2.40 billion	17,661 <sup>a</sup>
Everett	37,353	9.9	132 million	1,088
Springfield	150,640	13.7	529 million	5,125
Worcester	175,011	10.4	491 million	5,165

Sources: U.S. Census Bureau; U.S. Department of Labor; and Boston, Springfield, Worcester, and Everett budget documents.

Notes: Population data are from the latest available estimate, July 1, 2008. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

<sup>a</sup>Total full-time equivalent count includes 1,132 grant-funded employees.

The four selected cities have used Recovery Act funds to prevent layoffs of teachers, police, and firefighters, and were used in some cases on one-time investment purchases. For example, Everett used \$3 million in Phase II SFSF funds to pay 61 teachers’ salaries. Springfield used \$4.4 million in IDEA money to pay education costs, including special education teachers’ salaries, rather than draw from the city’s stretched education budget.

<sup>28</sup>City Recovery Act funds referred to in this section cover funds which are administered by city government and not the full scope of Recovery Act funds that benefit city residents, such as unemployment insurance and Medicaid. This section includes sources of Recovery Act funds which substitute for declines in city operating revenues. Other city-administered Recovery Act funds provide expanded services and include funds for community development, homelessness, and energy efficiency.

Worcester officials also reported using \$15 million in Recovery Act funds to prevent significant teacher layoffs. In the area of public safety, three of the four cities were able to use either the Community Oriented Police Services Hiring Recovery Program grant or the Edward Byrne Memorial Justice Assistance Grant (JAG), or both, to prevent some police officer layoffs. Everett also used a \$91,202 JAG grant to improve police department efficiency by hiring a part-time crime analyst, while Boston used a Fire Service Staffing Grant of almost \$1.4 million to pay for firefighter overtime and maintain fire service staffing levels. In addition to public safety and education funding, some localities used Recovery Act funds to make one-time purchases that represent an investment in the city's future operations. Everett, for example, used a \$149,300 Department of Energy block grant to purchase solar trash receptacles, which officials calculate will cut Everett's fuel costs and lower maintenance costs. Springfield officials told us that Recovery Act funds allowed them to complete some pending projects sooner, including a new computer database of student education information.

Although all of the selected cities expressed concern about further reductions in state aid, Boston reported that its present budget is stable. Officials in Boston reported that they increased the hotel tax by 2 percent and added a new meals tax of 0.75 percent. In Springfield, officials characterized their 2010 fiscal year operating budget as on track, however, it had increased its use of local reserves by \$2.5 million, for a total of \$12.5 million, to close the budget gap for fiscal year 2011 (which begins July 1, 2010). Both Worcester and Everett reported experiencing various spending pressures, including increased health insurance premiums for city workers. While there were no mid-year cuts to state aid in fiscal year 2010, officials in some of the cities we spoke to anticipate the state will further reduce aid during fiscal year 2011. According to state budget officials, the legislature is considering up to a 4 percent cut in aid to local governments for the coming fiscal year. For Boston this could amount to approximately \$25 million less for the city. In Worcester and Springfield state aid comprises about 55 and 60 percent of the cities' budgets respectively, according to local officials. A Worcester official recalled that a 25 percent cut in aid in fiscal year 2009 had a significant impact on the city's operating budget.

The cities we spoke to are preparing for the challenges posed by the end of Recovery Act funds in a variety of ways. Some of the cities have raised, or are considering raising, taxes and fees to increase revenues. Boston officials expect increased hotel and meals tax rates to add \$28.4 million to the fiscal year 2011 budget, while officials in Everett are considering

increasing city fees and charges for permits. Springfield and Everett will continue to look for new sources of grant funding. Springfield, for example, hired an outside grant writing consultant to address its lack of grant writing capacity. In Worcester, to cut costs in advance of the end of Recovery Act JAG funding, which is paying for the salaries of 24 police officers through January 2011, city officials restructured their police department by eliminating unfilled managerial positions and positions soon to be vacant due to retirement. In anticipation of the limited duration of Recovery Act dollars, Springfield officials stated that they restricted their use of some of their Recovery Act funds to one time purchases that would not require sustained funding. Springfield's \$1.26 million Recovery Act JAG grant, for example, was spent entirely on technology upgrades; none was spent on personnel.

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## State and Local Officials Have a Variety of Recovery Act Program Audits Underway

The Massachusetts Office of the State Auditor (OSA), with authority to audit state agencies, has several audits underway specifically focused on Recovery Act-funded programs. OSA, which according to officials has been affected by state furloughs and hiring reductions, has incorporated Recovery Act related questions into its audit work, including the Single Audit. The 2009 state Single Audit covered Recovery Act FMAP and SFSP funds and had one procedural finding. OSA's audits of Recovery Act funds include programs funding weatherization, housing, highways, transit, higher education, and youth employment. Though most audits are ongoing, OSA is completing its audit of the WIA Youth Program, which will address participants' eligibility and the number of jobs reported under this program.

The Massachusetts Office of the Inspector General (OIG) is focusing its efforts on investigating Recovery Act programs for fraud, waste, and abuse. OIG officials say they are at different stages in their review of Recovery Act programs, but have had delays partly due to some federal agencies' slow sharing of information. In December 2009, OIG officials, as instructed by the U.S. Department of Justice's Office of Justice Programs, filed a Freedom of Information Act request to get needed information, including JAG grant applications. The OIG reported that after a delay it received the final transmission of the documents it requested from the Department of Justice on April 30, 2010. In addition to its oversight role, the OIG has undertaken Recovery Act educational efforts, including training on proper procurement methods and fraud prevention.

All localities we spoke with plan to conduct Recovery Act oversight through the Single Audit process. Boston officials stated that the city's

2009 Single Audit included an audit of \$23.3 million in SFSF funds from the commonwealth and the audit indicated that Boston complied with the requirements of the grant. The only Recovery Act funds reviewed in the 2009 Single Audit for Everett and Worcester were SFSF grants to schools. In Worcester, auditors found expenses from before the eligible period incorrectly charged to the SFSF grant. The city made an adjusting entry to accurately reflect only eligible fourth quarter expenses and submitted an amended financial report. Springfield's Single Audit for 2009 also included only Recovery Act SFSF grants to schools and the audit indicated the city had complied with the requirements of these grants. Boston officials are studying their options regarding auditing the spending of Recovery Act funds. They expect that their fiscal year 2010 Single Audit will cover most of Recovery Act-funded programs.

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## State Comments on This Summary

We provided a draft of this appendix to the Governor of Massachusetts, the Massachusetts OSA, the Massachusetts OIG, the Massachusetts Joint Committee on Federal Stimulus Oversight, and the Massachusetts Senate Committee on Post Audit, and provided excerpts of the draft to other entities including cities, local housing agencies, and regional transit agencies we visited. The Governor's office that oversees Recovery Act implementation, in general, agreed with our draft report. State and local officials provided clarifying and technical comments, which we incorporated where appropriate.

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# Appendix X: Michigan

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## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in Michigan. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

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## What We Did

Our work in Michigan focused on the (1) use of Recovery Act funds for selected programs, (2) approaches taken by Michigan to provide accountability over Recovery Act funds, and (3) impacts of these funds. We reviewed specific programs funded under the Recovery Act related to public housing and dislocated worker training. In addition to these programs, we obtained and reviewed expenditure details and other information on the state's use of State Fiscal Stabilization Fund (SFSF) government services funds. We also reviewed the state's and selected localities' fiscal condition and use of Recovery Act funds. We considered selected reports to the federal government by recipients of Recovery Act funds as well as oversight and accountability practices including selected financial statement audit reports and selected Single Audit reports at both the state and local levels. We selected these program areas and activities because they had a number of risk factors, including the receipt of significant amounts of Recovery Act funds or a substantial increase in funding from previous years' levels. These program areas and activities also provided an opportunity for us to consider the design of internal controls over the program areas and activities as well as those put in place to obtain and report information to the federal government on Recovery Act spending and jobs created or retained. To address financial management and internal control challenges we previously reported on, we followed up on actions taken and those planned by the Michigan Department of Education (MDE) and Detroit Public Schools (DPS), and state and local agencies with responsibility for the state's Workforce Investment Act (WIA) Summer Youth Employment Program. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

We performed our work at state and local agencies responsible for implementing and monitoring and overseeing the programs. For our review of public housing, we visited two public housing authorities that we visited in prior rounds—Detroit and Lansing—and two additional

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

public housing authorities—Port Huron, and Mount Clemens, as well as the U.S. Department of Housing and Urban Development (HUD) Detroit Field Office. For our review of the WIA Dislocated Worker and Summer Youth Employment Programs, we met with officials from the Michigan Department of Energy, Labor and Economic Growth—the state agency responsible for administering these programs—as well as officials from two local workforce agencies.

We continued to track the use and impact of Recovery Act funds on state and local fiscal stabilization. We met with state budget officials and local officials from the cities of Flint and Lansing to assess the economic challenges they faced and the Recovery Act’s impact on their communities. To understand the state’s Recovery Act oversight and accountability efforts, we visited with officials from the Economic Recovery Office, Office of the Auditor General (OAG), Office of Internal Audit Services (OIAS), and the Detroit Office of Auditor General. We also reviewed the most recent single audit reports and met with officials responsible for oversight and monitoring for the City of Flint and the City of Lansing. We reviewed the most recent single audit reports for three of the four public housing authorities that we visited. We did not review the other because it was not complete at the time of our review. Officials with the Lansing Housing Commission told us that their audit for the fiscal year ended June 30, 2009, was in process and that HUD had granted an extension of time.

Finally, to understand the state’s experience in meeting the March 31, 2010, Recovery Act reporting requirements, we focused our work on the recipients’ methodology for computing jobs data and reviewed steps recipients took to assess the quality of the data. We discussed these issues with state and local officials with responsibilities for recipient reporting and reviewed documentation used by recipients to support the number of jobs reported.

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## What We Found

- **Public Housing Capital Fund.** Public housing authorities (PHA) in Michigan received over \$53 million in Recovery Act Public Housing Capital Fund formula grants. PHAs in Michigan are using these funds for activities including plumbing improvements and kitchen renovations at apartment complexes and single family home rehabilitations. All public housing authorities in Michigan met the March 17, 2010, deadline for obligating 100 percent of these funds. According to HUD, as of May 1, 2010, 122 housing agencies had drawn down approximately \$22 million. Officials of the four public housing

authorities we visited reported successfully meeting difficulties associated with Recovery Act requirements. For example, officials from the Detroit public housing authority said that documenting compliance with the Recovery Act's Buy America requirement has been a challenge because they did not have a process in place prior to the Recovery Act to address this requirement. Officials from HUD's Detroit Field Office told us that although they successfully instituted additional monitoring protocols for Recovery Act grants, this work limited staff availability to focus on other ongoing public housing program areas.

- **Education.** The U.S. Department of Education (Education) allocated \$1.592 billion in SFSF moneys to Michigan, of which \$1.302 billion are education stabilization funds and \$290 million are government services funds. Michigan used its education stabilization funds primarily for teacher salaries, and its government services funds primarily for public safety programs in fiscal year 2009. In addition, Education allocated Michigan \$390 million for Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA)—which Michigan schools used to pay for salaries for academic counselors, social workers, tutors, and other specialists—and \$414 million for Parts B and C of the Individuals with Disabilities Education Act, as amended (IDEA)—which Michigan used to pay salaries for teachers of students with cognitive impairment, school psychologists, and social workers. In our September bimonthly Recovery Act report we noted that to help provide accurate and timely Recovery Act reporting, MDE, in coordination with DPS, needed to implement policies and procedures to provide reasonable assurance that education-related Recovery Act funds are reported accurately and timely, that jobs retained and created are accurately and timely reported, and that funds are used only for allowable purposes. MDE has begun implementing a monitoring plan, and DPS has taken actions to improve its internal controls.
- **WIA Dislocated Worker Program.** Michigan received approximately \$78 million in WIA Dislocated Worker Program Recovery Act funds. As of March 31, 2010, Michigan and its local areas had drawn down at least 34 percent of these funds. Michigan officials reported that despite a nearly 43 percent reduction in formula funds from the previous program year, they were able to nearly double the number of dislocated workers receiving intensive services and training compared to the same period in the previous year. The state also reported that as of January 31, 2010, nearly 16,000 dislocated workers are in training. State officials said Recovery Act funds are primarily used to place

dislocated workers in existing state training initiatives, by using Individual Training Accounts (ITA).<sup>2</sup> Detroit and Grand Rapids reported that they used or intend to use Recovery Act funds primarily to establish ITAs for dislocated workers in training, although to a limited extent they have used other training options emphasized by the U.S. Department of Labor (Labor), including on-the-job-training and contracting with institutions of higher education.

- **WIA Summer Youth Employment Program.** Michigan was allotted approximately \$74 million in WIA Youth Program Recovery Act funds. The WIA Youth Program is designed to provide low-income, in-school and out-of-school youth with services that lead to educational achievement and successful employment. The Department of Labor issued guidance encouraging states to use Recovery Act funds for summer employment. Officials told us that as of March 31, 2010, a total of \$55.9 million had been expended and met the state's enrollment goal by serving over 21,000 youth in Michigan's Summer Youth Employment Program. Our prior review of Detroit's program identified a number of internal control challenges involving payroll preparation and distribution and program eligibility determinations and documentation. Detroit officials addressed our payroll findings by (1) streamlining the check distribution process, (2) moving to a larger distribution center, and (3) developing a procedures manual. To address issues of eligibility determination and documentation, Detroit officials developed a procedures manual, increased training of contractor staff, and are working with an advisory board to clarify criteria to be used for eligibility determinations.
- **State and local governments' fiscal condition and use of Recovery Act funds.** Michigan continues to face economic challenges. In March 2010, the state's unemployment rate was 14.9 percent, the highest in the nation. For the fiscal year ending September 30, 2010, Michigan expects to use almost \$1.1 billion in funds made available as a result of the increased Federal Medical Assistance Percentage (FMAP) to support the state's general fund. In response to a projected \$1.497 billion shortfall in fiscal year 2011 as Recovery Act funding slows, Michigan's Governor proposed a series of cost reductions and restructuring of the state's sales and use taxes. Flint city officials told us that Recovery Act funds provided the city

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<sup>2</sup>Except in limited circumstances, WIA requires the use of individual training accounts (ITAs) through which WIA participants purchase services from training providers.

with temporary relief but had little effect on the city's fiscal stability because of continuing economic pressures. Lansing city officials said that the city's economic situation would have been much worse without Recovery Act funds.

- **Recipient reporting.** Recipients' processes for calculating jobs and reviewing data varied for the quarter ending March 31, 2010. Office of Management and Budget's (OMB) guidance states that recipients are to include jobs created and retained from subrecipients and vendors in their quarterly reports to the maximum extent practicable. We found that the Department of Energy, Labor, and Economic Growth (DELEG) did not do so. In addition, Detroit Public School (DPS) officials told us that their initial report to the Michigan Department of Education did not include staff jobs paid for with SFSF funds or contractor jobs paid for with Recovery Act funds. When we brought this to the attention of DPS officials in April 2010, they discussed the matter with MDE and subsequently submitted an amended report. ERO officials told us that they will work with DELEG to address recipient reporting requirements.
- **Oversight and accountability efforts.** Michigan's OAG and OIAS serve key roles in overseeing Recovery Act-funded programs in Michigan. OAG officials told us that they are including Recovery Act funds as part of their Single Audit work at state agencies. These officials also told us that it would be helpful for OMB to clarify the criteria that the audit community should use for auditing recipient reports and complying with the "Buy American" provision for Recovery Act spending. OIAS officials told us that they assigned 2 of their 45 internal auditors to work full-time on programs funded by the Recovery Act. Based upon their assessment of risks, OIAS officials selected eight key programs for review. They plan to evaluate the agencies' ongoing monitoring activities. OIAS officials also told us that they would include steps as appropriate in their audit work plans for agencies that our work identifies as having internal control challenges.

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## Housing Agencies Continue to Make Progress on Public Housing Capital Fund Recovery Act Projects

Michigan has 131 public housing authorities (PHAs), 122 of which received Recovery Act-funded Public Housing Capital Fund (PHCF) grants.<sup>3</sup> These grants are intended to improve the physical condition of, and modernize, public housing units. Michigan PHAs received over \$53 million in Recovery Act PHCF formula grants. The Recovery Act mandated that housing agencies obligate 100 percent of these funds within 1 year of award by HUD—by March 17, 2010—representing a shorter timeline than that for the regular PHCF grant.<sup>4</sup> Michigan PHAs also received approximately \$41 million through the regular fiscal year 2009 PHCF grant program.<sup>5</sup> We met with officials from four PHAs—the Detroit, Lansing, Mount Clemens, and Port Huron Housing Commissions—to better understand how Michigan PHAs are using and monitoring the Recovery Act funds.<sup>6</sup> We also met with officials from HUD’s Detroit Field Office (Field Office) to better understand their interactions with PHAs regarding meeting the obligation deadline and steps they are taking to oversee Recovery Act spending, as well as to obtain their perspectives on implementing Recovery Act requirements, such as the recipient reporting and Buy American provisions.

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## Michigan PHAs Successfully Met Obligation Deadline

According to HUD officials, Michigan’s 122 PHAs that received Recovery Act funds obligated 100 percent of Recovery Act PHCF formula grants prior to the obligation deadline of March 17, 2010, and as of May 1, 2010, had drawn down approximately \$22 million (see fig. 1).

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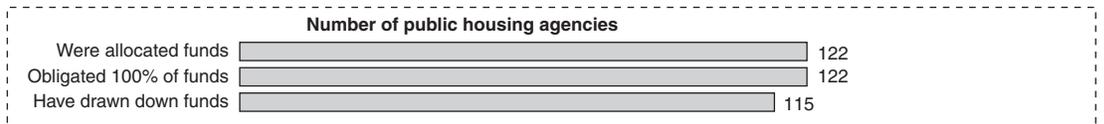
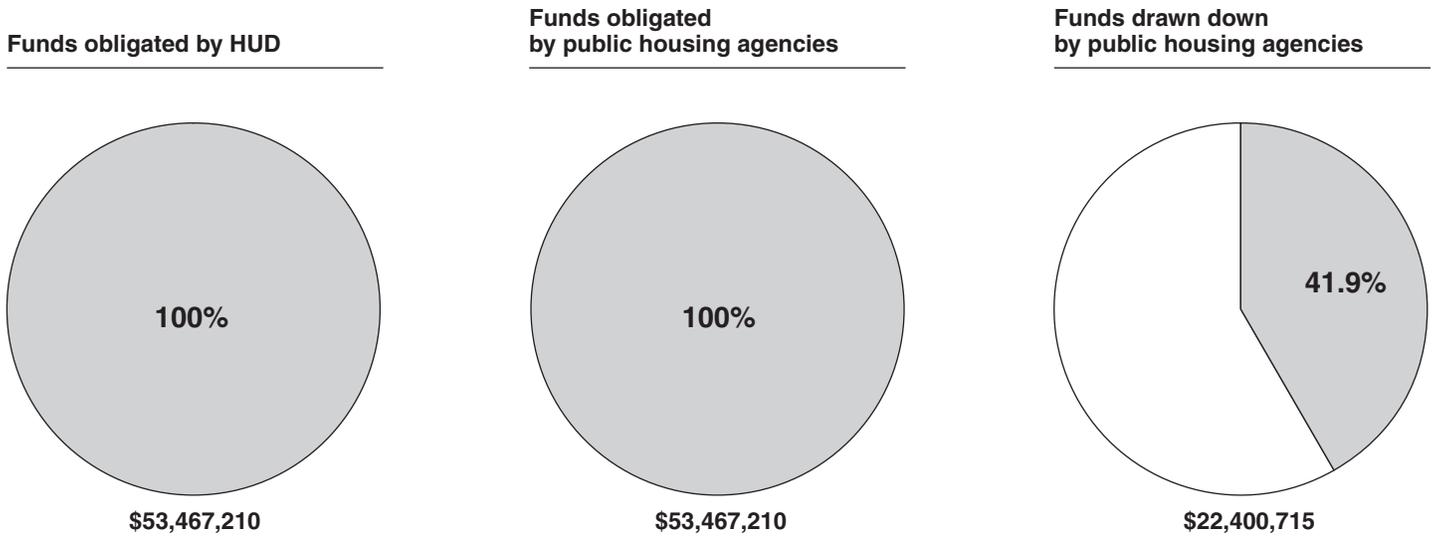
<sup>3</sup>The remaining nine PHAs did not receive PHCF grants because they only administer the U.S. Department of Housing and Urban Development’s Section 8 rental assistance program and do not manage any housing developments themselves.

<sup>4</sup>In contrast to Recovery Act deadlines, PHAs must generally obligate 100 percent of regular PHCF grant funds within two years.

<sup>5</sup>These funds are in addition to fiscal year 2010 regular PHCF grants.

<sup>6</sup>Recovery Act PHCF grants awarded to selected PHAs are as follows: Detroit, \$17,275,908; Lansing, \$1,997,093; Mount Clemens, \$582,013; and Port Huron, \$946,655.

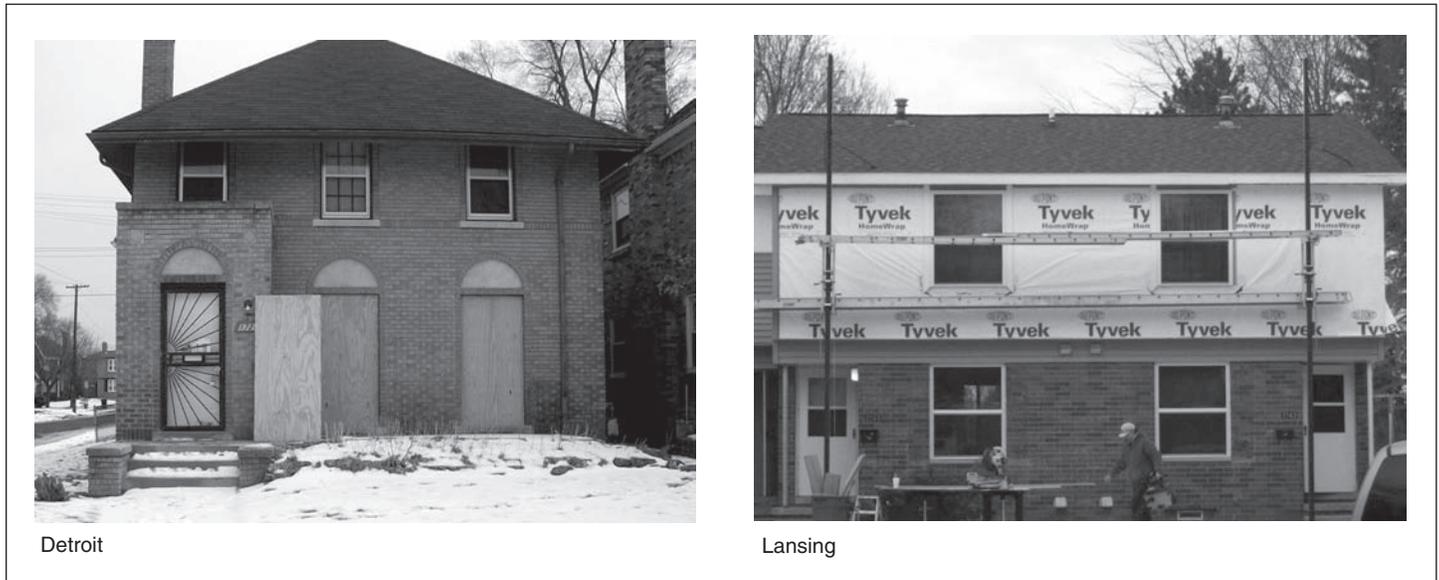
**Figure 1: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down in Michigan as of May 1, 2010**



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

The four PHAs we met with are using Recovery Act-funded PHCF grants for a variety of projects. For example, the Detroit Housing Commission (Detroit) is using the funds for, among other things, plumbing improvements at a 156-unit development as well as rehabilitating 178 single family homes. The Lansing Housing Commission (Lansing) is using its grant to upgrade two different apartment developments and 75 single-family homes. Figure 2 depicts two Recovery Act-funded projects at Detroit and Lansing.

**Figure 2: Photos of a Detroit Single-Family Home and Units at a Lansing Housing Complex That Are in the Process of Being Renovated with Recovery Act Funds**



Source: GAO.

The two smaller PHAs we spoke with targeted their Recovery Act funding on one development. For example, the Port Huron Housing Commission (Port Huron) reported that it will use its Recovery Act grant for exterior and interior kitchen renovations of 90 units at one development.

### HUD’s Detroit Field Office Identified PHAs Needing Assistance to Meet the Obligation Deadline

Field Office officials described communication with PHAs as “a core element” of their strategy to monitor grant implementation and ensure obligation rates would meet Recovery Act deadlines. They reached out to PHAs in a variety of ways, including participating in industry association meetings, supporting local PHA training sessions, and contacting executive directors. In cases where Field Office staff identified PHAs at risk of failing to meet the obligation deadline, they contacted either housing commission board commissioners or locally elected officials to communicate their concerns about a PHA’s lagging obligation rate. The Field Office contacted each of the four PHAs we reviewed to help identify and address any issues that could have prevented them from meeting the obligation deadline. For example, Field Office officials told us that they helped the Ecorse Housing Commission through several processes involved with its plan to demolish a number of public housing units as part of a Recovery Act-funded project.

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## Recovery Act Requirements Created Some Challenges

PHA officials reported varying degrees of difficulty associated with meeting Recovery Act requirements. For example, PHA officials told us that in administering prior capital fund grants, there was no requirement to identify and report on the source of materials used for capital fund activities, and processes were not in place to gather this information. As a result, officials from all four PHAs we visited told us that they modified their procurement processes to obtain information from contractors to meet the Recovery Act's Buy American provision.<sup>7</sup> Detroit officials said that the Buy American provision required some of its contractors to find new suppliers that would meet the Buy America provision requirements and that documenting the source of materials used for Recovery Act-funded projects has been a challenge as not all manufactured products provide this information and some products are not available from American sources.

We also analyzed the impact of Recovery Act-funded PHCF grants on the administration of regular PHCF grants. Two of the PHA officials we visited reported that the requirement to obligate 100 percent of their Recovery Act funds by March 17, 2010, had affected their ability to administer other funds. Officials from Lansing and Mount Clemens told us that limited staffing made administering both Recovery Act-funded and regular PHCF grants a challenge, but that, despite their focus on obligating Recovery Act funds first, they still expect to meet the September 2011 obligation deadline for regular fiscal year 2009 funds.

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## PHAs Are Using Existing Processes to Oversee Recovery Act Funds

Officials from Detroit and Lansing—the PHAs we reviewed that made significant expenditures by the beginning of April—told us that they are using existing monitoring processes, such as conducting periodic inspections, for Recovery Act-funded work. Detroit officials, for example, told us that their staffs are producing daily field reports as part of their regular procedures to monitor construction progress. Similarly, Lansing officials told us that they conduct periodic site visits and review progress reports provided by their architects.

Each PHA that receives HUD funds is responsible for having its activities audited by an independent public accountant in accordance with Government Auditing Standards, and submitting the audit report to HUD within 9 months after its fiscal year-end. We obtained the audit reports for

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<sup>7</sup>Recovery Act, div. A, § 1605, 123 Stat. 303.

three of the four PHAs we visited—Detroit, Mount Clemens, and Port Huron.<sup>8</sup> These audits covered the PHAs’ fiscal year ended June 30, 2009, and two of the three audits included coverage for some Recovery Act spending (Detroit and Port Huron). All three PHAs received an unqualified or “clean” audit opinion on their financial statements and none of the audits reported any significant internal control or compliance matters.

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### HUD’s Detroit Field Office Instituted Additional Monitoring Protocols for Recovery Act Funds

Field Office officials, who have responsibility for monitoring all 122 PHAs in Michigan receiving Recovery Act-funded PHCF grants, provided us with their monitoring plan. Although this plan provided monitoring procedures for all PHAs, it focuses the Field Office’s efforts on the 15 Michigan PHAs that HUD has designated as “troubled.”<sup>9</sup> Field Office officials said that they required all troubled PHAs to obtain Field Office approval before obtaining bids and awarding contracts. They also told us that they reviewed troubled PHAs’ obligation actions, such as award packages and final contracts and any subsequent change orders, for compliance with Recovery Act requirements including the Buy American provision.

Field Office staff said they also are reviewing obligations and expenditures equal to 25 percent of each grant award at PHAs that are not “troubled.” Field Office officials told us that they believe this process has helped them identify and resolve compliance issues. For example, Field Office staff told us that they identified the need to update PHA procurement procedures and prevented the allocation of funds by PHAs for ineligible work items (e.g., computers or office equipment) prior to the commitment of funds. However, Field Office officials told us that overseeing Recovery Act grants using the monitoring plan had limited their staff’s availability to conduct timely monitoring, oversight, and technical assistance over other program areas. For example, they postponed some planned monitoring activities for other HUD programs, such as Section 8 rental assistance, until later in fiscal year 2010.

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<sup>8</sup>The fourth PHA, Lansing, received an extension from HUD to submit its audit for the fiscal year ending June 30, 2009, and told us on April 23, 2010, that the auditor expects to issue a report soon.

<sup>9</sup>HUD identifies “troubled” PHAs through its Public Housing Assessment System, which evaluates the overall condition of housing agencies and measures performance in major operational areas of the public housing program. In Michigan, these PHAs are the Algonac, Benton Harbor, Detroit, Ecorse, Flint, Grayling, Highland Park, Iron County, Jackson, Luna Pier, Pontiac, Rapid River, River Rouge, Royal Oak Township, and Wakefield Housing Commissions.

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## Michigan Is Using Recovery Act Funds from the U.S. Department of Education for Education and Public Safety Programs

The U.S. Department of Education (Education) made Recovery Act education funds available to Michigan through three major programs:

- Education allocated \$1.592 billion in State Fiscal Stabilization Fund (SFSF) moneys, of which \$1.302 billion are education stabilization funds and \$290 million are government services funds, as of May 29, 2009. Education stabilization funds must first be used to alleviate shortfalls in state support for education to school districts, also known as local educational agencies (LEA), and public institutions of higher education.<sup>10</sup> Government services funds must be used for public safety and other government services, which may include education.
- Education allocated \$390 million in funding for ESEA Title I, Part A to help educate disadvantaged youth, on April 1, 2009.
- Education allocated \$414 million in funding for IDEA, Parts B and C for programs that ensure preschool and school-age children with disabilities have access to a free and appropriate public education and that provide early intervention and related services for infants and toddlers with disabilities—or at risk of developing a disability—and their families, on April 1, 2009.

LEAs in Michigan used SFSF education stabilization funds to retain jobs—primarily teachers—that would otherwise have been lost. LEAs used ESEA Title I funds to pay for salaries for academic counselors, social workers, tutors, and other specialists. In some cases, they used funds to train teachers or enhance curriculum. For example, Detroit Public Schools used ESEA Title I funds for professional development and instructional materials. Finally, MDE reported using IDEA funds to pay salaries for teachers of students with cognitive impairment, school psychologists, and social workers. As of April 16, 2010, Michigan had drawn down \$923.1 million (71 percent) of its SFSF education stabilization funds; \$86.9 million (22 percent) of its ESEA Title I, Part A funding; and \$82.2 million (20 percent) of its IDEA Part B funding.

In our September report we noted that to provide accurate and timely Recovery Act reporting, the Michigan Department of Education (MDE), in

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<sup>10</sup>States must maintain state support for K-12 education and institutions of higher education at least at fiscal year 2006 levels in fiscal years 2009, 2010, and 2011. States must first use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to K-12 school districts and institutions of higher education in fiscal years 2009 through 2011.

coordination with the Detroit Public Schools (DPS), will need to consider implementing policies and procedures in the near term to provide reasonable assurance that education-related Recovery Act funds, including those provided to DPS, are reported accurately and timely; that jobs retained and created are accurately and timely reported; and that funds are used only for allowable purposes. To accomplish this, MDE has begun implementing a monitoring plan and DPS has taken actions to improve its internal controls. We discussed our prior findings with MDE and DPS officials in April 2010 and they told us that they would provide us with written responses to these issues at a later date.

The Recovery Act created SFSF in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services. On April 1, 2009, Education allocated \$290 million in SFSF government services funds to Michigan. As of March 31, 2010, Michigan had expended almost all of its government services funds (over \$288 million). Specifically, these funds were used during Michigan's fiscal year ended September 30, 2009, for the following:

- **Payroll and related expenses for the Michigan State Police: \$98 million.** Funds were used for staff payroll and the state's share of employee benefits for uniformed troopers, investigative services, and laboratory operations.
- **Payroll and related expenses for the Department of Corrections: \$190 million.** Funds were used for staff payroll and the state's share of employee benefits for operations at one correctional facility; mental health care staff; and food services staff.
- **Expenses of the Economic Recovery Office (ERO), which administers the Recovery Act for Michigan: \$324,000.** Michigan used these funds for staff salaries, the state's share of employee benefits for 3.5 full-time equivalents, and the general operational and administrative expenses of the ERO. In addition, it used Recovery Act funds to develop a centralized database and portal to support recipient reporting.

State budget officials told us that these payroll, benefit, and other expenses were incurred during the period starting on February 17, 2009, the Recovery Act's enactment date, and ending on September 30, 2009, the last day of the state's fiscal year. Officials said that they identified specific staff salaries and the related estimated employer share of benefit expenses

to support the amounts charged to Recovery Act funds. Officials told us that as of March 31, 2010, Michigan had about \$1.6 million of its government services funds remaining, most of which are to be used to pay for ERO operations through September 30, 2011.

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## Michigan Has Made Progress on Monitoring and Internal Controls for Education Funds

As required, MDE submitted its monitoring plan for education stabilization funds to Education in March 2010. MDE's plan states that the department will implement an integrated, comprehensive monitoring program for all Recovery Act grants, and that for the first year the effort will focus on SFSF education stabilization funds. According to MDE officials, this monitoring began in March 2010, and they determined the schedule for monitoring based on a risk-based analysis of numerous factors, including whether the district has a deficit, prior audit findings, and the amount of SFSF funds received.

In order to meet the requirements to effectively monitor Recovery Act grant programs, MDE plans to follow a phased approach, while building capacity. Officials told us that MDE currently conducts programmatic monitoring on all Education grants, and they plan to add fiscal monitoring over time. During the 2009-2010 school year, MDE plans to leverage its resources by using existing staff. Using a risk-based approach, MDE officials told us they identified recipients to receive on-site visits and will conduct monitoring of SFSF funds for subrecipients with a Recovery Act award during these visits. MDE assigned a Recovery Act monitoring coordinator to coordinate MDE monitoring efforts of all Recovery Act grants, but with a special focus on on-site and desk reviews for SFSF grants. Officials told us that program monitors have been trained on SFSF-specific monitoring protocols and tools. MDE also plans to collect data from all subrecipients as part of its Recovery Act monitoring.

State officials said that although they have not developed a specific oversight plan to provide assurance of accountability of Recovery Act SFSF government services funds, Michigan intends to rely primarily upon existing safeguards, which is consistent with the state's practices for other Recovery Act funds. Michigan's Department of Management and Budget, the Michigan State Police, and the Department of Corrections each have responsibility for overseeing and monitoring their operations' use of SFSF government services funds. Education required states to submit monitoring plans for both the education stabilization and government services funds. Michigan provided monitoring plans from the Department of Corrections and the Michigan State Police by the March 12, 2010, deadline. In addition, in April 2010 officials in the Office of the Auditor

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General told us that they are including these funds in their Single-Audit Act work.<sup>11</sup>

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### MDE Performs Targeted Monitoring and Oversight of the Detroit Public Schools District

MDE performs targeted monitoring and oversight of DPS based on the significant education funds provided to the district—including increases in funds through the Recovery Act—and the risks posed by long-standing financial management challenges. In addition, as a result of financial management weaknesses and DPS's budget deficits,<sup>12</sup> Michigan's Governor appointed an Emergency Financial Manager for the district in March 2009 and extended his initial 1-year term through March 1, 2011. The Emergency Financial Manager also appointed two officials to help improve DPS's financial oversight, an Inspector General and an Auditor General.

MDE allocated \$62.3 million in SFSF funding and \$150 million in ESEA Title I Recovery Act funds to DPS through fiscal year 2010, along with \$25.7 million in Recovery Act funds to DPS for IDEA Part B grants, for a total of \$238 million. As of April 20, 2010, DPS had drawn down \$98.2 million of these funds (\$60.4 million from SFSF grants, \$32.4 million from ESEA Title I grants, and \$5.4 million from IDEA Part B grants). MDE officials told us that as part of the department's enhanced monitoring of DPS, including its Recovery Act spending, they have created a team that meets on a regular basis to discuss and review DPS's applications, draw-down requests, policies and procedures, and strategic planning documents. MDE also has a core team that conducts biweekly phone calls with DPS to discuss internal control issues.

In addition, MDE officials told us that they engaged an independent public accountant (IPA) to test DPS payment transactions. They hired the IPA to assist in evaluating whether DPS maintained documentation and followed specified procedures regarding federally funded payroll and fringe benefit costs for employees, as well as nonpayroll federal expenditures for fiscal year 2010. According to MDE officials, DPS is working with MDE to establish new procedures. DPS's rate of compliance with these procedures is periodically tested by the IPA, which in turn is responsible for reporting the test results to MDE. Although MDE officials told us that the new

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<sup>11</sup>For more discussion of single audits, see the full report at <http://www.gao.gov/recovery>.

<sup>12</sup>DPS reported a deficit of \$139 million for its fiscal year ended June 30, 2008; and \$219 million for fiscal year ended June 30, 2009.

procedures have led to improved controls over payroll and nonpayroll expenditures, they did not maintain a record of the change in error rates reported by the IPA over time or other metrics to monitor progress. Without preparing and continually updating such a record, MDE may not be assured that actions taken are appropriate or that the desired effect occurs, or be able to assess whether the impact is being sustained.

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### The Detroit Public Schools District Has Taken Steps to Improve Its Internal Controls

DPS has made progress in improving its financial management in a number of areas. For example, in contrast to prior years, the IPA submitted the district's 2009 audit in advance of the November 15, 2009, deadline. The 2009 audit also contained fewer findings than the prior year's audit. DPS officials also told us that they hired a consulting firm to assist them in organizing and addressing audit findings and to help develop long-term solutions.

DPS officials told us that DPS's Inspector General has instituted a monitoring system that seeks to continuously evaluate and reduce risk of fraud. In addition to this monitoring system, the DPS Auditor General, an internal audit office, has recently begun a formal internal control risk management analysis involving interviews of various DPS administrators, contractors, vendors, and other stakeholders. In April 2010, DPS Auditor General officials told us that they conducted preliminary assessments of all departments and are working to understand and document what controls are currently in place for each department. Officials also told us that, in an effort to encourage program managers to take ownership of internal control improvements, they plan to ask each program manager to identify initiatives he or she wants to complete within a year.

DPS officials said that they also developed a procedures manual for financial reporting and they plan to provide financial training, including training in accounting, bookkeeping, and preparing financial statements for school administrative staff. The manual is not specific to Recovery Act funding; rather, it is designed to address financial reporting on a district-wide basis. Specific issues addressed in the manual are allowable use of funds, contract suspension and debarment, equipment management, personnel management, and contracting policy. However, as of April 2010, although much has been done in each of the five targeted areas to document policies and procedures, officials acknowledged that none of these efforts have been fully completed or placed in operation.

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## Work Remains to Address Systemic Weaknesses at DPS

To ensure accountability over Recovery Act funds, it is important for MDE, DPS, and other stakeholders to continue their efforts to provide sustained attention to these long-standing financial management challenges. In addition, it is important to ensure that the underlying causes of control weaknesses are addressed and that improvements—once put into place—are monitored.

For example, MDE officials told us they were concerned that the district inadequately documented conflicts of interest. To address, they said that DPS has adopted new policies and procedures, but still needs to train about 15,000 employees. According to DPS officials, DPS has also implemented new controls over computers. These include equipping all new computers with an electronic tracking system and working with schools to complete an inventory of all equipment. Although there are plans to do so, DPS officials informed us in April 2010 that the computer physical inventory has not yet been reconciled with DPS property records. In addition, DPS has not established essential management processes for controlling physical assets—including, for example, periodic inventories and reconciliations to books and records.

MDE officials told us that they are focusing on improvements at DPS in the following areas: conflict of interest, allowable use of federal funds, cash management, contracting, procurement, internal monitoring, property and equipment, and personnel. DPS is charged with documenting its policies and procedures in each of these areas. MDE officials are benchmarking DPS's performance with that of other large city school districts, evaluations of external consultants, and MDE's own policies and procedures.

In addition, as discussed earlier, the DPS Inspector General is conducting work that results in recommendations to management. However, there is no formal process for tracking the recommendations from the Inspector General or actions to address the recommendations and there is no requirement for DPS departments to provide responses to the findings.

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## Michigan Has Made Progress in Using Recovery Act Funds to Provide Services and Training to Additional Dislocated Workers, Mainly through Existing Training Programs

Michigan has made progress in using Recovery Act funds for the WIA Dislocated Worker Program. The state received \$78.4 million in Recovery Act funds for the program and as of March 31, 2010, total state drawdowns account for at least 34 percent (\$27.3 million) of available funds.<sup>13</sup> Drawdowns represent cash transactions: funds drawn down by states and localities to pay their bills, such as payments for training provided. Localities must spend Recovery Act funds by June 30, 2011 to provide job training and other employment assistance.

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## Funds Have Been Used to Increase the Number of Workers Receiving Services and Training

Officials from the Michigan Department of Energy, Labor, and Economic Growth said that economic conditions contributed to an increased number of customers seeking services at one-stop centers across the state. At the same time, in 2009 Michigan received nearly 43 percent less in regular WIA Dislocated Worker formula funds than it did the previous program year.<sup>14</sup> Despite this reduction, state officials said that they were able to serve and train more WIA customers using both Recovery Act and regular formula funds. For example, according to state officials, for the month of December, when they typically see fewer customers, one-stop centers statewide saw an increase in customers from around 7,000 in 2007, to around 14,000 in 2009.<sup>15</sup> Moreover, dislocated workers receiving intensive services and training nearly doubled compared to the same time period in

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<sup>13</sup>According to Labor officials, the total amount of Michigan's drawdowns is a minimal estimate because of programming issues with Labor's new computer system. Labor is taking steps to correct the problem and officials told us on April 21, 2010 that they expect the issue to be resolved within the next 30 days. Labor officials said that actual drawdown amounts will be publicly available at that time.

<sup>14</sup>GAO has previously found that as states and localities have implemented WIA, they have been hampered by funding issues, including statutory funding formulas that are flawed. As a result, states' funding levels may not always be consistent with the actual demand for services. For more information, see [GAO-03-636](#) and GAO, *Workforce Investment Act Potential Effects of Alternative Formulas on State Allocations*, [GAO-03-1043](#), (Washington, D.C.: August 28, 2003).

<sup>15</sup>One-Stop customers in Michigan may be served through a variety of programs, including WIA Adult and Dislocated Worker Programs, and the Wagner-Peyser Employment Service Program, among others.

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the previous year, according to our survey.<sup>16</sup> The state also reported that nearly 16,000 dislocated workers are in training using Recovery Act or regular WIA dislocated worker funds, as of January 31, 2010.

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### Michigan Used Recovery Act Funds to Provide Training in Existing Programs and to Address Local Plans

State officials said that Recovery Act funds are primarily being used to place dislocated workers in existing training initiatives, such as the state's No Worker Left Behind program (NWLB), using individual training accounts (ITAs). The goal of this program is to accelerate the transition of thousands of workers into good paying jobs by providing up to two years worth of tuition at any community college, university, or other approved training provider. Both Grand Rapids and Detroit reported that they have used or intend to use Recovery Act funds primarily to establish ITAs for dislocated workers.<sup>17</sup> Labor encouraged states to use Recovery Act funds for a variety of training methods such as on-the-job training (OJT) and contracts with institutions of higher education, community based organizations and other training providers.<sup>18</sup> Grand Rapids officials said that they offered some OJT, but have not placed any dislocated workers in training through contracts with institutions of higher education. According to Grand Rapids officials, local community colleges are reluctant to develop group training programs because Recovery Act funds are temporary and would not be available to support these programs when funds are exhausted. Detroit officials said they are considering ideas to increase industry interest in OJT during the economic downturn and said they are using Recovery Act funds to place dislocated workers in training contracted through a local community college for coursework aligned with the Weatherization Assistance Program.<sup>19</sup> In summary, Grand Rapids and Detroit have a number of planned uses for Recovery Act funds in their

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<sup>16</sup>GAO conducted a nationwide Web-based survey of state workforce agencies regarding their use of Recovery Act funds for dislocated workers. However, GAO did not review the data used to provide these estimates.

<sup>17</sup>In Grand Rapids we visited the Area Community Services Employment and Training Council, the Workforce Development Board representing Kent and Allegan Counties.

<sup>18</sup>To facilitate increased training for high-demand occupations, the Recovery Act expanded the methods for providing training with Recovery Act funds, allowing states to directly enter into contracts with institutions of higher education or other training providers.

<sup>19</sup>The Recovery Act appropriated \$5 billion over a 3-year period for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) administers through each of the states, the District of Columbia, and seven territories and Indian tribes. The program enables low-income families to reduce their utility bills by making long-term energy efficiency improvements to their homes.

local areas, such as providing training for the health care industry or for green jobs, among others, as shown in table 1.

**Table 1: Selected Uses of WIA Dislocated Workers Program Recovery Act Funds in Detroit and Grand Rapids, MI**

Locality	Allocation	Planned uses
Detroit	\$7,224,075	<ul style="list-style-type: none"> <li>• Serve an increased number of customers at one-stop centers, in part by increasing career planning staff</li> <li>• Provide training coordinated through the NWLB program</li> <li>• Provide training in the health care industry due to strong local demand</li> <li>• Provide training contracted with higher education institutions for the Weatherization Assistance Program</li> </ul>
Grand Rapids	\$2,740,261	<ul style="list-style-type: none"> <li>• Serve an increased number of customers in one-stop centers</li> <li>• Offer more basic skills programs to prepare workers for entry-level college courses</li> <li>• Provide training in the health care industry due to strong local demand</li> <li>• Provide increasing training opportunities for green jobs</li> </ul>

Source: GAO analysis of interviews and information provided by the Detroit Workforce Development Department and Grand Rapids' Area Community Services Employment and Training Council. This table is not intended to present all planned uses for Recovery Act funds.

## State and Local Officials Have Taken Steps to Address Detroit's WIA Summer Youth Employment Program's Internal Control Challenges

Michigan was allotted approximately \$74 million in WIA Youth Program, Recovery Act funds. The WIA Youth Program is designed to provide low-income, in-school and out-of-school youth with services that lead to educational achievement and successful employment, and the Department of Labor issued guidance encouraging states to use Recovery Act funds for summer employment. DELEG—the state agency responsible for administering the program—allocated \$62.9 million to its 25 local Michigan Works! Agencies and reserved \$11.1 million (15 percent) for statewide activities. DELEG officials told us that as of March 31, 2010, the Michigan Works! Agencies had expended \$55.9 million and that the program had met the state's enrollment goal and served over 21,000 youth in Michigan's Summer Youth Employment Program.

Our prior review of Detroit's program identified a number of significant internal control challenges that needed attention.<sup>20</sup> The Detroit program served approximately 7,000 youth. These challenges included control weaknesses with the payroll preparation and distribution process and program eligibility determinations and documentation. In September 2009

<sup>20</sup>GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Appendixes)*, [GAO-09-1017SP](#) (Washington, D.C.: September 2009).

we reported that DELEG needed to work with the Detroit Workforce Development Department (DWDD)—the Michigan Works! Agency responsible for Detroit’s program—and its WIA contractors to address internal control issues with youth not being paid on time and checks being prepared with incorrect amounts, payee names, and addresses, as well as to resolve past payroll preparation issues and payroll distribution challenges. We also reported that DELEG should work with Detroit program officials to identify program risks and implement appropriate internal controls to address issues involving eligibility determinations and the lack of documentation supporting eligibility decisions.

State officials concurred with our assessment of Detroit’s payroll weaknesses and recommended that DWDD modify its entire weekly payroll process and restructure the distribution process to ensure sites are adequately staffed to serve participants in an organized and timely manner. Through a series of biweekly meetings and conference calls, DELEG officials provided DWDD officials with technical assistance, including staff training and best practices from another Michigan Works! Agency. Based in part on this assistance, DWDD worked with its program contractor to address our payroll findings by (1) streamlining the check distribution process, (2) moving to a larger distribution center, and (3) developing a procedures manual. DELEG and contractor officials told us that during the last two payroll periods for the 2009 program, the streamlined payroll procedures and change of venue resulted in shorter waiting times for youth picking up their paychecks and faster resolution of complaints and they expect further improvements in payroll procedures going forward.

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**Actions Are Under Way to Improve Safeguards for Documenting Eligibility Determinations**

Two DWDD-led reviews determined that some files contained improper or incomplete eligibility certification documentation and that 119 ineligible youth received a total of \$40,253 from WIA Recovery Act funds that should not have been paid. For example, DWDD found that medical files—which DELEG officials told us was unacceptable for verification purposes—were used to verify age and eligibility for some participants. On April 27, 2010, DWDD officials provided us with evidence that the Detroit WIA Summer

Youth program had been reimbursed for \$40,253 for improper payments made to youth in Detroit using Recovery Act funds.<sup>21</sup>

DWDD officials told us that because complete documentation and evidence of eligibility verifications were missing from some files, they had conducted an assessment of their eligibility determination and documentation processes. DWDD officials also said they trained 24 contractor staff on required and acceptable alternative documentation.

Our earlier review of participant files had also revealed inadequate or nonexistent support of the “youth in need of special assistance” basis for WIA eligibility decisions. In March 2010, the DWDD Director told us that DWDD officials were collaborating with an advisory body to develop a working definition of the “youth in need of special assistance” category that was used during the 2009 program.<sup>22</sup> They expect that once the definition is approved by the DWDD board, it will provide clear instructions on which youth meet this definition.

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<sup>21</sup>Program officials told us that their work had identified \$40,253 of improper payments made with Recovery Act funds. Our work did not extend to testing the methodology used or the support for the amount management identified. The \$40,253 represents unaudited information.

<sup>22</sup>DWDD was consulting with the Education & Youth Advisory Council, an advisory body to the Detroit Workforce Development Board charged with developing policy to operate youth services.

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## Recovery Act Funds Continue to Provide Assistance to the State of Michigan and Its Local Governments as They Address Ongoing Budget Challenges

The State of Michigan continues to face economic difficulties. In March 2010, the state's unemployment rate was 14.9 percent,<sup>23</sup> the highest in the nation and an increase from 13.3 percent in March 2009. As noted in our previous reports, Michigan took a number of cost-cutting measures midway through fiscal year 2009 to help ensure that the state's budget ended the fiscal year in balance. These measures included mandating furlough days for state employees, closing three correctional facilities, and implementing a 4 percent across-the-board cut for most state agencies. The ongoing difficulties are also reflected in projected revenues for the state's two largest budget funds—the general fund and the School Aid Fund—which are estimated to total \$17.4 billion<sup>24</sup> for the fiscal year ending September 30, 2011. This would be a 4.6 percent decline from fiscal year 2009. The Governor's proposed fiscal year 2011 budget states that expected revenues, along with current spending policies, would create a \$1.497 billion shortfall in fiscal year 2011.

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## Recovery Act Funds Used to Maintain Balanced Budget

In fiscal year 2010, Michigan officials expect to use almost \$1.1 billion in funds made available as a result of the increased FMAP under the Recovery Act to support the state's general fund. In addition, the School Aid Fund is bolstered by \$450 million in Recovery Act SFSF education stabilization funds.<sup>25</sup> State officials said that without these funds, the state would likely have had to make cuts to school spending and its Medicaid program, and even more drastic cuts in local government aid than it did for fiscal year 2010.<sup>26</sup> State officials said that through March 2010, fiscal year 2010's actual revenues have matched projections and that—with the assistance of Recovery Act funds—the state has not had to implement employee furloughs or supplemental budget cuts as it did in fiscal year 2009. State officials said that the State Budget Office will continue to

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<sup>23</sup>GAO analysis of U.S. Department of Labor, Bureau of Labor Statistics (BLS) data. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

<sup>24</sup>According to state budget officials, general fund revenues in fiscal year 2011 are expected to be \$6.96 billion, and revenues for the School Aid Fund are expected to be \$10.48 billion.

<sup>25</sup>According to state budget officials, general fund spending in fiscal year 2010 is expected to be \$8.1 billion; School Aid Fund spending in fiscal year 2010 is expected to be \$12.8 billion.

<sup>26</sup>According to officials, Michigan cut revenue sharing with local governments from \$1.03 billion in fiscal year 2009 to an estimated \$917 million in fiscal year 2010.

monitor the state’s fiscal situation to determine if additional action is necessary.

**Michigan Is Preparing for the Cliff Effect**

As mentioned above, Michigan is facing a \$1.497 billion shortfall in fiscal year 2011. According to the Governor’s proposed fiscal year 2011 budget, over \$1 billion of this shortfall is due to a funding gap that is expected to exist when Recovery Act funds run out. The Governor has proposed a series of cost reductions and a restructuring of the state’s sales and use taxes<sup>27</sup> to help fill the anticipated gap. The proposed budget also includes \$514 million in increased FMAP payments to the state in the first two quarters of calendar year 2011 based upon the state’s expectation that the Congress will extend the temporary increase in the FMAP that was provided under the Recovery Act. State officials told us that if Congress does not extend this increase, the state’s fiscal year 2011 budget would not balance and officials would need to find alternative sources to address the additional budget shortfall of \$514 million.

We also visited the cities of Flint and Lansing (see table 2) to review their use of Recovery Act funds.

**Table 2: Background on Selected Local Governments**

Locality	Population	Locality type	Unemployment rate	Fiscal year 2010 operating budget
Flint	112,900	City	27.0%	\$279.4 million
Lansing	113,968	City	16.3%	\$219.1 million

Source: GAO analysis of U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics. Operating budget information provided by local budget officials.

Notes: City population data are from the latest available estimate, July 1, 2008. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

**City of Flint**

Flint was awarded \$12.2 million in Recovery Act funds through April 30, 2010, an increase of \$7.7 million from the \$4.5 million we reported in

<sup>27</sup> According to a March 2010 Michigan Senate Fiscal Agency memo on the Governor’s proposed tax changes, this proposed restructuring would lower the sales and use tax rate from 6 percent to 5.5 percent while expanding the sales and use tax to consumer services such as repair and maintenance services; cable and satellite television; and live entertainment. The Governor’s proposed budget excludes certain items from this tax, such as health care and social assistance, education, and new construction.

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December 2009.<sup>28</sup> City officials told us that this increase was due to two Recovery Act grants:

- an Energy Efficiency and Conservation Block Grant (EECBG) of about \$1 million, which they plan to use for increasing energy efficiency as they rehabilitate houses and construct group housing, and
- a Staffing for Adequate Fire and Emergency Response Grant of \$6.7 million awarded by the U.S. Department of Homeland Security, which they expect to use to rehire 39 firefighters that had been previously laid off.

Flint officials noted that similar to what we reported in December 2009, Recovery Act funds continue to have little effect on the city's fiscal stability because of continuing economic pressures. Officials told us that while Recovery Act funding has provided the city with temporary relief, the city is still losing more jobs than are created or retained with the use of Recovery Act funds. Flint officials told us that the city has recently experienced declines in its primary sources of revenue—income taxes and state revenue sharing. To help balance its budget, the city is decreasing the number of municipal employees and reducing government services, such as garbage collection. Flint officials told us that a Recovery Act funded COPS Hiring Recovery Program (CHRP) grant helped the police department prevent further reductions in staffing by hiring eight police officers, but that city has not determined how it will pay these officers' salaries when the grant runs out.

Flint's most recent Single Audit report—dated December 18, 2009, for the fiscal year ended June 30, 2009—included a report on internal controls. One control weakness reported was the absence of documentation confirming that contractors being paid through the city's Community Development Block Grant (CDBG) program had not been debarred. The city has received Recovery Act funds through the CDBG program, but after the time period covered by the Single Audit report. To correct this weakness, city officials told us that before expending any Recovery Act funds they had begun to include confirmation documentation in their contract records.

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<sup>28</sup>See [GAO-10-232SP](#) for our discussion of Flint's previous Recovery Act grant awards.

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## City of Lansing

As of April 30, 2010, Lansing was awarded approximately \$26.5 million in Recovery Act funds through a number of different programs—including an \$867,768 CHRP award, which will be used to add or retain four police officers for a three year period, and approximately \$5 million through a Neighborhood Stabilization Program award which will be used to acquire, manage, rehabilitate, or demolish 323 foreclosed homes. Lansing officials also described instances in which they worked with other entities to maximize the effectiveness of Recovery Act grants. For example, they told us that the city is currently collaborating with the state on a solar demonstration project using EECBG funds received separately by the city and state.

City officials said that Lansing’s economic situation would have been much worse without Recovery Act funds. Officials told us that they are allocating most of the Recovery Act funds that Lansing receives to nonrecurring projects that will not need continued funding once the Recovery Act funds run out. For example, city officials told us that Lansing is using its CDBG grant to fund improvements to walkways at the Boys and Girls Club and install light-emitting diode traffic lights.

Although city officials primarily relied upon preexisting internal controls and oversight practices, they told us that they modified their controls as a result of control weaknesses reported in the most recent Single Audit report. The audit—dated December 17, 2009, for the fiscal year ended June 30, 2009—included internal control findings. In response to the audit, officials said that among other things, Lansing is now performing closer monitoring of subrecipients by instructing all monitoring staff to ensure that single audit findings of subrecipients are followed up on.

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## Recipients Varied in Compliance with OMB’s Guidance on Reporting Jobs

The Recovery Act requires each recipient of Recovery Act funds to report information quarterly to the federal government on each award, including (1) the total amount of Recovery Act funds received, (2) the amount of funds expended or obligated to projects or activities, and (3) the estimated number of jobs created and retained by the projects and activities.<sup>29</sup> For this report, we met with state and local officials to discuss processes and procedures selected recipients have in place to implement the Office of Management and Budget’s (OMB) guidance on full-time equivalent (FTE)

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<sup>29</sup>Recovery Act, div. A, title XV, § 1512(c).

calculations.<sup>30</sup> We also reviewed steps recipients took to assess the quality of the data they used in their most recent recipient reports, which covered the period January 1 through March 31, 2010. We reviewed supporting documents and held discussions with state officials from the Economic Recovery Office (ERO), Michigan Department of Education (MDE), and Michigan Department of Energy Labor and Economic Growth (DELEG), as well as officials from Detroit Public Schools (DPS), Michigan State University, Detroit Workforce Development Department (DWDD), and the Detroit Housing Commission. In Michigan, state agencies—such as MDE and DELEG—report to the ERO through a centralized reporting process, while entities that receive Recovery Act funds directly from the federal government—including the Detroit Housing Commission—report on an individual basis to the federal government and do not participate in the state’s centralized process.

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### Improvement May Be Needed to Meet Recovery Act Reporting Requirements

We found that preparers of recipient reports that we reviewed generally followed the OMB guidance; however, their interpretations of guidance and their processes varied and did not consistently ensure that complete and accurate information was reported to the federal government. OMB’s guidance states that recipients are to include jobs created and retained from subrecipients and vendors in their quarterly reports to the maximum extent practicable. Consistent with OMB’s guidance, Detroit Housing Commission officials told us that their recipient report FTE calculation did include hours worked by contractors and subcontractors.<sup>31</sup> However, we found that DELEG and DWDD (which is one of 25 Michigan Works! Agencies that reports to DELEG) did not report consistent with OMB guidance. DWDD officials told us that the FTE information they provided to DELEG included the number of youth employed in the summer youth employment program, but did not include hours worked by their

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<sup>30</sup>OMB Memorandum, M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* (Dec. 18, 2009), among other things, standardized the period of measurement of jobs created or retained as one quarter.

<sup>31</sup>OMB Memorandum, M-10-08, December 18, 2009, states that, “To the maximum extent practicable, information should be collected from all sub-recipients and vendors in order to generate the most comprehensive and complete job impact numbers available.”

contractor or subcontractor personnel.<sup>32</sup> DELEG officials told us that they did not require their Michigan Works! Agencies to include hours worked by their contractors or subcontractors. Similarly, DPS officials told us that their initial report to MDE did not include hours worked by their Recovery Act-funded contractors because they were not aware of the requirement. When we brought this to the attention of DPS officials in April 2010, they told us they would discuss the matter with MDE. MDE officials later told us DPS submitted an amended report to include contractor and subcontractor jobs.

Without processes in place to obtain information from the contractors for hours worked, DELEG's reporting of jobs created or retained may be misstated. DELEG should pursue with appropriate ERO and federal officials what information they may be responsible for obtaining from contractors, and provide appropriate direction to their subrecipients—including the 25 Michigan Works! Agencies—as appropriate. In May 2010, ERO officials told us that they will work with DELEG to address this issue.

We also found one instance where jobs created by Recovery Act funds were not initially reported because, according to DPS officials, the school system concluded that it had not been reimbursed with Recovery Act funds by March 31, 2010.<sup>33</sup> DPS officials told us that they reported jobs for their ESEA and IDEA grants, but not for their SFSF grant because they had not received reimbursement during the quarter ended March 31, 2010. DPS subsequently received reimbursement from the state. When we brought this to the attention of DPS officials in April 2010, they discussed the matter with MDE and subsequently submitted an amended report to include 430 jobs.

Similarly, another recipient we spoke with told us that they needed further guidance from state or federal officials regarding salaries that had been paid from operating funds but will be retroactively funded by SFSF education stabilization funds. Michigan State University officials told us

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<sup>32</sup>Of the \$11.4 million of Recovery Act funding allocated to Detroit Michigan Works! Agency, DWDD retained \$8.3 million for youth payroll and internal administration and used \$3.1 million to contract with a vendor that administered the summer youth employment program. In total, DELEG allocated \$62.9 million to the 25 Michigan Works! Agencies for the WIA summer youth program.

<sup>33</sup>On October 21, 2009, MDE initially made approximately \$12.1 million in SFSF funds available to DPS. On March 12, 2010, MDE made an additional \$14.7 million in SFSF funds available to DPS.

that the Michigan Department of Management and Budget awarded them \$35.7 million in SFSF education stabilization funds in February 2010. Officials also said that through March 31, 2010, they had spent approximately \$2.5 million of their award on scholarships and had reported zero jobs in the March 31, 2010, recipient report. Approximately \$30.1 million of these funds will be used to fund university salaries and related benefits retroactive to October 1, 2009.<sup>34</sup> The university plans to offset budget cuts by transferring employee salaries and benefits paid from operating funds to SFSF education stabilization funds, and is currently working to identify these expenses. However, officials told us that they will seek guidance from Michigan's Department of Management and Budget about how to report the jobs created or retained by Recovery Act funds and paid for in previous quarters. Because OMB's December 18, 2009, guidance states that a funded job is one in which the wages or salaries are either paid for or will be reimbursed with Recovery Act funding, these jobs should be reported as jobs created or retained with Recovery Act funds. Michigan officials with the ERO, the Michigan Department of Management and Budget and MDE should consider what actions might be taken to ensure that jobs that are paid for by Recovery Act SFSF education stabilization funds are being reported consistently and timely. In May 2010, ERO officials told us that they will work with stakeholders to address this issue.

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### Data Quality Review Processes Varied among Recipients

We found that recipients conducted various levels of data quality reviews. For example, MDE officials told us that their subrecipients—including DPS—provide them with FTE and vendor payment information on each Recovery Act grant they received using an electronic system with a built-in error-checking mechanism. Officials provided us with a copy of their written review procedures, which include steps for program offices to review subrecipient reports for missing information, verify that the number of FTEs is consistent with the award amount and is reported for the quarter only, and contact subrecipients in instances where the program offices have concerns. MDE sent its completed recipient report to the ERO, where it was again reviewed before it was submitted to the federal government. On the other hand, the Detroit Housing Commission, which reports directly to the federal government, told us that it collected

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<sup>34</sup>Officials told us that they plan to use approximately \$5.2 million of the award to reinstate Michigan Promise scholarships, about \$400,000 on economic hardship scholarships, and the balance on making up for budget cuts that had affected the Michigan Agricultural Experiment Station and the Michigan State University Extension Service.

and aggregated FTE information from each of its contractors and submitted the completed recipient report.<sup>35</sup> Although the housing commission does not require contractors to provide documentation supporting their FTE information, officials told us that they review the information that contractors do provide for reasonableness.

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## State and Local Officials Have a Variety of Recovery Act Program Audits Under Way, but Believe Additional Federal Guidance Is Needed

Michigan's Office of the Auditor General (OAG) and the Office of Internal Audit Services (OIAS) serve key roles in safeguarding Recovery Act-funded programs in Michigan. OAG is responsible for conducting financial, performance, and Single Audits<sup>36</sup>—under the Single Audit Act—of Michigan's state agencies. In April 2010, OAG officials told us that they are including Recovery Act funds as part of their audit work and that the Single Audit reports covering the 2-year period ended September 30, 2009, are planned for issuance by June 30, 2010. They told us that the scope of work covered in each state agency's single audit differs because it is based on the results of risk assessments, but typically includes, as applicable, compliance work in areas such as Davis-Bacon Act provisions, state cost matching or maintenance-of-effort requirements, allowable costs, recipient reporting, and subrecipient monitoring.<sup>37</sup>

OAG officials told us that one challenge in their Single Audit process for state agencies is the absence of Office of Management and Budget's (OMB) guidance on audit requirements for the mandated quarterly recipient reports of Recovery Act spending and jobs created and retained. OAG officials told us that they were uncertain about the usefulness of

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<sup>35</sup>Detroit Housing Commission officials told us that contractors also provide FTE information from their subcontractors.

<sup>36</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

<sup>37</sup>The Davis-Bacon Act is codified at 40 U.S.C. §§ 3141–3144, 3146–3148. The Recovery Act's Davis-Bacon provisions are located at section 1606 of the act. Recovery Act, div. A, § 1606, 123 Stat. 303.

auditing the September 30, 2009, recipient reports, since OMB's December guidance changed the jobs calculation methodology from calculating jobs on a cumulative basis to a quarterly basis. As a consequence, OAG officials stated that for their single-audit work on recipient reporting they will obtain an understanding of the internal control structure established and make an assessment of the process based on that understanding, but likely will not audit the effectiveness of the controls. Because Michigan is one of the few states with a September 30 fiscal year-end—the same date as the first required recipient reports—this challenge is unusual compared to states with a June 30 fiscal year-end because at the close of these audits state officials had not yet completed any recipient reports.<sup>38</sup>

Another challenge OAG officials discussed with us is the lack of federal guidance related to the “Buy American” provision of the Recovery Act.<sup>39</sup> OAG officials said that it would be helpful for OMB to clarify the criteria that the audit community should use for assessing compliance with the Buy American provision. Similar to the recipient report issue discussed above, OAG officials are concerned that additional guidance from federal agencies is needed to help ensure that the Single Audits provide sufficient information for the report users and that OAG investments of scarce audit resources are targeted on areas that are at higher risk.<sup>40</sup>

In April 2009, Michigan established the ERO to, among other things, provide oversight and enhance transparency over the availability and uses of funds, and maintain a Web Site on Michigan's Recovery and Reinvestment Plan ([www.michigan.gov/recovery](http://www.michigan.gov/recovery)). The ERO is the central state office that collects, reviews, and transmits state agencies' quarterly recipient reports to the federal government through [federalreporting.gov](http://federalreporting.gov). According to ERO officials, state agencies are responsible for the data in their recipient reports and ERO staff review the reports for inconsistencies and reasonableness.

OIAS is the central internal audit group for Michigan with responsibility for internal audit and related services—such as reviews and technical assistance—to assist executive branch departments and state agencies in

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<sup>38</sup>The first recipient reports covered the period through September 30, 2009, and were due on October 10, 2009.

<sup>39</sup>Section 1605 of the Recovery Act imposes a Buy American requirement on Recovery Act funding, subject to certain exceptions. Recovery Act, div. A, § 1605, 123 Stat. 303.

<sup>40</sup>For more discussion of Single Audits, see the full report at <http://www.gao.gov/recovery>.

assessing risk and implementing, maintaining, and monitoring internal controls. In January 2010, OIAS officials told us that when Congress enacted the Recovery Act in February 2009, they began designing an approach for monitoring Recovery Act funds. Officials told us that the office assigned two of its 45 internal audit staff to work full-time on programs funded by the Recovery Act, and plans to increase staffing as necessary. In addition, OIAS officials told us that they selected eight programs for detailed review based on an assessment of the control risks posed by the programs, and that they planned to conduct further reviews of the selected programs as spending occurred.<sup>41</sup> OIAS officials told us that they would include steps as appropriate into their audit work plans for issues that GAO's Recovery Act work identifies, such as the internal control challenges we reported in September 2009 for MDE, DPS, DELEG and the Detroit Workforce Investment Act (WIA) program.<sup>42</sup>

Along with OIAS and OAG efforts to monitor Michigan's state agencies through audits, reviews, and technical assistance, state agencies are responsible for monitoring their subrecipients. For example, MDE is responsible for monitoring its local educational agencies. An OIAS official told us that they observed MDE staff monitoring the local educational agencies in April 2010. They also told us that they plan to observe how the Michigan Department of Human Services—the state agency that oversees the Weatherization Assistance Program—completes on-site reviews of the local agencies that administer the program to determine if any changes to the Department of Human Services' review procedures are necessary.

The localities whose officials we spoke with typically conduct Recovery Act oversight through the Single Audit process. For example, the Detroit Housing Commission's audit for the year ended June 30, 2009, included Recovery Act funds HUD awarded to the commission. However, the in-

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<sup>41</sup>The eight programs selected for review are the: (1) State Energy Program, (2) Byrne Memorial Justice Assistance Grant, (3) Grants to Local Educational Agencies, (4) Individuals with Disabilities Education Act – Special Education Grants, (5) School Improvement Grants, (6) Workforce Investment Act of 1998, (7) Clean Water/Drinking Water Revolving Funds, and (8) Weatherization Assistance Program.

<sup>42</sup>In September 2009 we reported that the Department of Energy, Labor and Economic Growth should work with the Detroit WIA program to implement internal controls to address weaknesses with the program's payroll preparation and distribution process as well as program eligibility determinations. We also noted that the Michigan Department of Education, in coordination with Detroit Public Schools, will need to consider implementing procedures to provide reasonable assurance that Recovery Act funds are reported accurately and timely and used only for allowable purposes. [GAO-09-1017SP](#).

process audit of the Lansing Housing Commission and the City of Flint's completed audit for the year ended June 30, 2009, did not address Recovery Act funds because the audit period predated their Recovery Act spending. Officials in the Detroit Office of Auditor General told us that their office's Recovery Act initiatives included an internal control risk assessment and review of the control structure and the preparedness of three city departments that were allocated Recovery Act funds: Detroit's Department of Human Services, the Detroit Workforce Development Department,<sup>43</sup> and the Detroit Police Department. In October 2009, the Detroit Office of Auditor General recommended to the Detroit City Council that the city strengthen its overall reporting process to comply with the accountability and transparency requirements of the Recovery Act. The auditor's report noted that conditions related to weaknesses in reporting, bank reconciliations and other internal controls cited in the City's single audits increased the financial control risks of Recovery Act funds. In April 2010, officials from the Office of Auditor General told us that as the city's spending of Recovery Act funding increases, they plan to follow up on their preliminary work and anticipate that they may issue an updated assessment to city departments and the City Council after completion of follow-up work.

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## State and Locality Comments on This Summary

We provided the Governor of Michigan with a draft of this appendix and staff in the ERO reviewed the draft and responded on May 6, 2010. We also provided relevant excerpts to officials from the localities we visited. Officials agreed with our draft and provided technical suggestions that were incorporated, as appropriate.

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## GAO Contact

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## Staff Acknowledgments

In addition to the contact named above, Robert Owens, Assistant Director; Ranya Elias, analyst-in-charge; Kevin Finnerty; Patrick Frey; Henry Malone; Giao N. Nguyen; Laura Pacheco; and Amy Sweet made major contributions to this report.

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<sup>43</sup>Our Recovery Act work includes the Workforce Investment Act of 1998 summer youth employment program. Michigan's Department of Energy, Labor and Economic Growth is the state agency that administers the program and does so in Detroit through the Detroit Workforce Development Department, one of 25 Michigan Works! Agencies. Please see our report, [GAO-09-1017SP](#) beginning at page MI-28 for a more detailed discussion of the control challenges that we identified.

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# Appendix XI: Mississippi

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## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of the American Recovery and Reinvestment Act (Recovery Act) spending in Mississippi.<sup>1</sup> The full report on all of our work, which covers 16 states and the District of Columbia, is available at <http://www.gao.gov/recovery>.

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## What We Did

We reviewed two programs funded under the Recovery Act—the Weatherization Assistance Program and the Mississippi Clean Water and Drinking Water State Revolving Funds (SRF). We selected these programs because the Recovery Act significantly increased the programs' funding. Our work focused on the status of program funding, the programs' use of funds, and other issues. As part of our review of the Weatherization Assistance Program, we visited community action agencies located in Columbia, D'Lo, McComb, and Meridian. We also visited the Mississippi Department of Environmental Quality (MDEQ) and the Mississippi Department of Health (MSDH), which administer loans for clean and drinking water projects that are funded through the Recovery Act. For description and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

Our work in Mississippi also included meeting with officials of two Mississippi cities to determine the amount of Recovery Act funds each has or will receive directly from federal agencies and to learn how those funds are being used. We also wanted to determine the amount of Recovery Act funds that flow indirectly into these communities from state and federal agencies and the funds' impact on the communities. We chose to visit the cities of Hattiesburg and Greenwood. We selected Hattiesburg because its unemployment rate was below the state's average and it is one of the largest cities in Mississippi. We selected Greenwood because of its small population and because its unemployment rate is higher than the state's average.

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## What We Found

- **Weatherization Assistance Program.** The U. S. Department of Energy (DOE) allocated \$49.4 million in Recovery Act weatherization funding to Mississippi. Based on information available as of March 31, 2010, more than 2,400 homes have been weatherized statewide and \$8 million has been expended. To ensure that funds are expended

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115, (Feb. 17, 2009)

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appropriately and efficiently, the Department of Community Services (DCS) monitors the programmatic and fiscal operations of its subgrantees, which execute the program. DCS cancelled its subgrant with one community action agency because of improper weatherization of homes and mismanagement of the program. We reviewed the amounts paid to contractors for labor for home weatherization and brought them to the attention of DCS, who determined that the amounts exceeded DCS' established guidance. DCS subsequently required the community action agency to reimburse DCS more than \$38,000 paid to contractors for excess labor charges.

- **Clean Water and Drinking Water revolving funds.** Two Mississippi agencies—MDEQ and MSDH—received \$35,665,000 and \$19,500,000 respectively, in Recovery Act funding for their Clean Water and Drinking Water SRF programs. Overall, bids on projects were lower than state estimates, freeing up Recovery Act funding for other projects. According to the Directors of the Clean Water and Drinking Water programs, the Environmental Protection Agency (EPA) has been slow to distribute guidance and states are left to decide how to monitor the implementation of Recovery Act requirements.
- **Localities' use of Recovery Act funds.** Both Hattiesburg and Greenwood received Recovery Act funds directly from federal agencies. Hattiesburg received a total of \$1,829,233 and Greenwood received a total of \$462,042. In addition, other entities within the cities of Hattiesburg and Greenwood received Recovery Act funds that did not directly affect the two cities' budgets, but did benefit the cities. According to city officials, Recovery Act funds helped Hattiesburg and Greenwood, but did not prevent budget reductions or meet all of the cities' critical needs.
- **State fiscal condition.** Mississippi continues to experience significant fiscal challenges. Tax revenue collections for July 2009 through April 2010, the first 10 months of fiscal year 2010, totaled \$300.4 million, or 7.7 percent below expectations. Based on the current revenue forecast, the expected shortfall for the fiscal year is projected to be \$499.1 million.
- **Accountability.** To ensure accountability and oversight over federal funds received by Mississippi, the Office of the State Auditor (OSA) conducts an annual Single Audit that reports on internal controls over financial reporting and compliance with pertinent laws and

regulations.<sup>2</sup> In addition, to provide increased oversight and accountability of Recovery Act funds, OSA has contracted with a national accounting firm, BKD, to assist with monitoring and oversight. BKD plans to monitor entities such as local governments, not-for-profit organizations, community health centers, and school districts. The Mississippi Department of Finance and Administration (DFA) is monitoring state agencies receiving Recovery Act funds. To do so, it has contracted with the accounting firm KPMG LLP to assess all state agencies for their compliance with Recovery Act provisions.

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## Mississippi Progresses in Weatherizing Homes and Curtails Abuse

DOE allocated \$49.4 million in Recovery Act funding to Mississippi for its Weatherization Assistance Program, which the Department has indicated is to be spent by March 31, 2012. This represents a large increase over prior years when DOE's allocation to Mississippi typically ranged from \$1.5 million to \$2 million. This large influx of Recovery Act funding has significantly increased the oversight responsibilities of DCS, the office within the Mississippi Department of Human Services (MDHS) that administers the Weatherization Assistance Program. DCS provides subgrants to community action agencies to weatherize homes and oversees these agencies' activities to ensure that homes are weatherized efficiently and economically and that contractors being used by the agencies perform quality work.

Of the total \$49.4 million in Recovery Act weatherization funds that DCS is to receive, \$35.5 million has been allocated to 10 community action agencies statewide to purchase materials and contract for weatherization services.<sup>3</sup> DCS expects to use the remaining \$13.9 million, or 28 percent,

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<sup>2</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

<sup>3</sup>Initially 10 community action agencies weatherized homes using Recovery Act funding. However, as of March 4, 2010, DCS terminated funding to Southwest Mississippi Opportunity (SMO) and DCS officials stated that they plan to redistribute the remaining funds to other community action agencies for home weatherization.

for administrative costs, technical and training assistance, and audit fees for community action agencies' year-end audits by private accounting firms. According to information provided by DCS, of the \$13.9 million, the department will expend approximately \$8.6 million for training and technical assistance; \$4.9 million, shared equally by DCS and the community action agencies, for administrative costs; and \$255,000 for the audits performed by the accounting firms.

The Recovery Act has allowed states to increase the average amount of funds that may be used to weatherize a home. Formerly, DOE allowed an average of \$3,055 per home, but the Recovery Act increased this to a maximum average of \$6,500. DCS has directed community action agencies to allocate no more than \$4,500 of that amount for material and labor. The Director of DCS told us that he has also directed that labor cost should not be more than 125 percent of material costs. This action was taken after our work found that one community action agency's labor costs were 200 to 400 percent of material costs. DOE allows the remainder of the \$6,500 per home, or \$2,000, to be spent on overhead costs, such as program staff salaries, travel, supplies, rent, and utilities.<sup>4</sup>

DCS initially determined that it could weatherize a total of 5,468 homes with Recovery Act funds (\$35.5 million allocated to community action agencies divided by \$6,500). An agency official told us that the 5,468 homes is a minimum goal and is based on projected costs per home. Further, the official told us that should weatherization cost per home be less than \$6,500 additional homes will be weatherized.

DCS officials stated that they have divided the Recovery Act Weatherization Assistance Program into two segments. As shown in table 1, the first segment, which stretched from April 2009 through March 2010, called for the weatherization of 2,408 homes. The remaining 3,060 homes are to be weatherized during the second segment which runs from April 2010 through September 2011. DCS officials stated that the schedule for the second segment will reflect any additional homes that can be weatherized if the average cost per home remains less than the estimated \$6,500 (\$4,500 projected for labor and materials, plus \$2,000 for overhead).

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<sup>4</sup>The overhead costs charged to each home are in addition to administrative costs that DOE allows the community action agencies to recover.

Table 1: Homes Weatherized, by Community Action Agency

Community action agency	Homes scheduled for weatherization	Actual number of homes weatherized	Variance	Average cost of homes weatherized <sup>a</sup>
Bolivar County	117	145	28	\$2,120
Central Mississippi, Inc.	136	204	68	3,722
Lift, Inc.	167	196	29	2,492
Multi-County	248	248	0	3,131
Northeast	88	127	39	3,568
Pearl River Valley Opportunity	429	404	(25)	3,001
Prairie Opportunity	230	254	24	3,788
South Central	337	392	55	3,393
Southwest Mississippi	236	48	(188)	3,016
Warren Washington Issaquena Sharkey	420	442	22	3,769
<b>Total</b>	<b>2,408</b>	<b>2,460</b>	<b>52</b>	<b>\$3,278</b>

Source: Mississippi Department of Human Services/Division of Community Services.

Note: All data through March 31, 2010

<sup>a</sup>Average cost includes labor and materials.

As of March 31, 2010, the community action agencies had weatherized a total of 2,460 homes, or 45 percent of the 5,468 scheduled to be weatherized. Although the total number of homes weatherized is ahead of schedule, one community action agency—Southwest Mississippi Opportunity (SMO)—was 188 homes behind schedule because of poor performance. As discussed later in this appendix, DCS officials stated that they directed SMO to halt new weatherization activities and subsequently terminated SMO’s weatherization subgrant. According to the DCS Director, SMO’s backlog of homes will be redistributed between South Central and Warren Washington Issaquena Sharkey community action agencies.

## Oversight of Weatherization Assistance Program Exceeds DOE Requirements

DOE requires that at least 5 percent of all homes weatherized each year be inspected by the state, but DCS monitors 22.5 percent of all weatherized homes. DCS regional weatherization coordinators are required to monitor 20 percent of all completed homes. DCS state-level personnel re-inspect 10 percent of the homes inspected by regional personnel, and an additional 2.5 percent of homes that have not been inspected. During the second segment of their work, DCS officials told us that they have set a new goal of inspecting 40 percent of all weatherized homes. To carry out its monitoring activities, DCS has four site coordinators and six regional

coordinators performing home inspections and it plans to hire an additional six regional coordinators.

The Division of Program Integrity (DPI), within MDHS, also has oversight responsibilities. DPI is required to examine the fiscal and programmatic records of the community action agencies and DPI officials stated that their division is to inspect 10 percent of the total number of homes weatherized. Currently, DPI has a staff of two to inspect homes and plans to hire one additional staff member.

#### Oversight by Division of Community Services Identified Program Weaknesses

According to DCS and community action agency officials, DCS personnel monitor the community action agencies' weatherization activities on a regular basis. As of March 31, 2010, the community action agencies had weatherized 2,460 homes using Recovery Act funds and DCS staff reported that DCS monitors had inspected 810, or 33 percent of homes weatherized, exceeding DOE's requirement of 5 percent. DCS staff noted that problems found during home inspections included improperly installed smoke and carbon monoxide detectors and incomplete work by contractors, such as homes that were not properly insulated. The Director of DCS told us that if a contractor is required to return to a home to complete improper work, the work must be performed at the contractor's expense.

As part of the inspection process, DCS monitors also review client files for accuracy and completeness. Monitors stated that some of the problems found most often in client files are incomplete labor invoices and unfinished weatherization checklists. DCS staff explained that when problems are identified, DCS directs community action agency officials to correct the problem. We also reviewed client files at four community action agencies and identified inconsistencies in the reporting of labor costs. We discussed these findings with DCS and as a result, DCS has created a uniform labor invoice to be used by all community action agencies.

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#### Serious Deficiencies at One Community Action Agency Led to Termination of Weatherization Activities

During routine monitoring at the SMO community action agency, DCS found problems that resulted in the termination of the agency's subgrant. SMO was allocated approximately \$3.6 million of Recovery Act funds to weatherize 507 homes in 10 counties. DCS monitors who reviewed client files and inspected homes weatherized by SMO contractors found that client files were incomplete and, according to DCS officials, work performed on many of the homes was of poor quality. DCS provided written notification to SMO on multiple occasions, alerting SMO officials to the problems identified as well as directing SMO to correct the

SMO Given Numerous Opportunities to Correct Deficiencies

problems. DCS officials stated that they also provided additional training to SMO staff in an attempt to correct problems it saw as pervasive. According to DCS officials, when SMO did not achieve the results that DCS considered necessary, DCS terminated SMO's Recovery Act Weatherization Assistance Program.

From September 2009 through February 2010, DCS completed numerous reviews of SMO's operations and home weatherization activities. During these reviews, DCS found that SMO was not in compliance with DCS policies and procedures. For example, the work that contractors were directed to complete did not match the work performed on homes; documents were missing from client files or were incomplete; an equipment inventory had not been maintained; and SMO had not provided adequate oversight and assistance to contractors to ensure that laborers were paid prevailing wages.<sup>5</sup> Site visits to homes weatherized by SMO contractors also revealed poor quality work. Insulation in walls did not meet specifications; non-vented heaters were not removed from homes that had been weatherized; and SMO inspectors were not testing homes for carbon monoxide.

After each visit, DCS notified SMO's Executive Director of the deficiencies and directed him to make corrections. To assist SMO officials, DCS also provided additional training and information for SMO contractors. In early October, after finding continuing problems with client records and with completed homes, DCS also notified SMO that it was not to weatherize additional homes and that it was to correct the problems found in the homes it had weatherized.

During January and February, we reviewed client files as well as data provided by SMO and DCS personnel and found several problems, which we shared with DCS. Our review of labor and material costs showed that in some cases the cost of labor exceeded material cost by 200 to 400 percent, which greatly exceeded DCS' established guidance at the time. As a result of these findings, DCS established a state-wide policy limiting labor costs to 125 percent of material costs. At our request, the Executive Director of SMO also provided documentation that showed the community

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<sup>5</sup>The Recovery Act requires all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the federal government with Recovery Act funds be paid wages at rates that are not less than those paid on local projects of a similar character as determined by the Secretary of Labor. Recovery Act § 1606, 123 Stat. 303.

action agency had incurred more than \$16,000 in rework costs to bring 23 of the 40 homes that it had weatherized up to standard.

Officials told us that SMO's weatherization coordinators did not respond to DCS training and that SMO's lead weatherization coordinator stated that the demands of supervising the weatherization program were overwhelming. The officials attributed SMO's problems to its failure to hire enough qualified personnel to effectively operate the program, as well as to poor program management. Officials also stated that because SMO was unable to correct the deficiencies in its weatherization program, DCS held a public hearing on March 4, 2010, that terminated SMO's Recovery Act Weatherization subgrant.

DCS officials stated that SMO will be responsible for reimbursing more than \$38,000 in Recovery Act funding to DCS for excessive labor expenditures. The Director of DCS also told us that SMO will be required to repay any additional labor and material costs incurred to correct poor quality workmanship in completed homes. Finally, the Director gave SMO 30 days to show that contractors had paid all laborers the prevailing wage as required by the Recovery Act, or DCS would report SMO to the Department of Labor.

The Director of DCS told us that SMO's problems have increased the costs of his division. He told us that the cost of re-inspecting and reworking the homes SMO weatherized and the cost of providing oversight and monitoring of SMO will amount to about \$50,000. This includes the cost of bringing in state coordinators and staff from other community action agencies to review client files and the cost of training SMO staff and contractors. Costs are expected to increase as homes are redistributed to other community action areas and additional staff are hired and trained. The director of DCS stated that Recovery Act funds set aside for training, technical assistance, and administrative efforts will pay for the additional cost.

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**Division of Program Integrity Was Unaware of Program Weaknesses at Problem Community Action Agency**

The Division of Program Integrity (DPI) is an independent division of MDHS that monitors all sub-grants from MDHS and assesses the audit findings for and corrective action plans of MDHS funding divisions. DPI officials stated that they monitor fiscal and programmatic records, compare costs with the monthly reporting worksheets, and conduct both payroll and non-payroll cash disbursement tests. Further, officials stated that DPI tests equipment purchases to ensure that the purchases are authorized, are used for the job specified, and have appropriate invoices.

DPI's Oversight of  
Weatherization Program Is  
Limited

Officials also told us that DPI checks the fiscal and programmatic internal controls of community action agencies.

As of March 31, 2010, DPI officials stated that they had visited 5 community action agencies that are responsible for Recovery Act weatherization programs and inspected a total of 87 of the 2,460 homes that have been weatherized throughout the state. In comparison, as of March 2010, DCS officials reported that they had inspected 810 homes. As discussed previously, DPI only has 2 staff conducting homes inspections whereas DCS has a total of 10 staff.

DPI monitors visited SMO in early December 2009 and inspected the files and homes of 10 clients, as well as SMO's fiscal and program operations. During its review, DPI did not find any of the problems that were identified by DCS during the same period. A draft report prepared by DPI stated that there were no significant adverse findings noted during its review of SMO.

DPI Unaware of Problems at  
SMO Due to Lack of  
Coordination

DPI conducted its review of SMO during the same period that DCS personnel were reviewing and monitoring SMO's weatherization activities. DPI found nothing significant during its review of SMO even though 3 weeks after DPI's review DCS issued a letter to SMO's Executive Director that listed numerous problem areas. DPI officials stated that they were not aware of the ongoing DCS review of SMO. Nor were DPI officials aware that in October 2009, DCS told SMO that it was not to weatherize additional homes. DPI officials also told us that they were unaware that homes weatherized by SMO required additional work or that there was a backlog of 188 homes waiting to be weatherized. In addition, DPI's review determined that SMO was in compliance with all state regulations and policies and the requirement to pay laborers the prevailing wage for the area. In contrast, in a December 29, 2009, letter to SMO, DCS stated that its monitors found that SMO was not in compliance with state procurement regulations and was not paying laborers the prevailing wage. DPI monitors also determined that SMO had adequate accounting and administrative internal controls and that SMO had a system in place that allowed all required financial reports to be completed correctly and submitted before reporting deadlines. In contrast, the DCS December 29, 2009, letter stated that SMO was unable to show DCS a monitoring system that ensured programmatic and administrative controls were in place, and that SMO did not meet reporting requirement standards.

In the future, DPI and DCS officials plan to meet once a month to discuss ongoing reviews and to better coordinate their work. DPI monitors have

also attended weatherization training conducted by DCS. In addition, DPI plans to hire one additional weatherization monitor to assist in conducting reviews of community action agencies.

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## Recovery Act Significantly Increases Funding for Mississippi Clean Water and Drinking Water Programs

MDEQ and MSDH administer loans for Clean Water and Drinking Water projects that are funded through the Recovery Act. MDEQ administers the Clean Water SRF program, which provides assistance in constructing publicly owned municipal wastewater treatment plants and implementing pollution management programs. MSDH is in charge of the Drinking Water SRF that provides assistance to public water systems in meeting requirements of the Safe Drinking Water Act.<sup>6</sup> MDEQ received \$35,665,000 in Recovery Act funding for the Clean Water program, which is nearly six times the amount that the department received in fiscal year 2008. Similarly, MSDH received \$19,500,000, about six times as much as it received in fiscal year 2008, to support the Drinking Water program.

According to the Directors of the Clean and Drinking Water SRF programs in Mississippi, the programs operate much like environmental infrastructure banks that are capitalized with federal and state contributions.<sup>7</sup> The Directors explained that base SRF programs are normally funded by grants from EPA and by state matching funds equal to about 20 percent of the federal funds. These funds, according to the Directors, are loaned to communities and loan repayments are recycled back into the SRF program to fund additional water projects and create a continuing source of assistance for communities, known as subrecipients. Both Directors stated that the Clean Water and Drinking Water SRF programs distributed all Recovery Act funds to subrecipients in the form of principal forgiveness, meaning that communities are not required to repay the portion of their loan provided with these funds. Communities will repay the portion of their loan financed with normal state revolving funds at the programs' normal loan terms.

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<sup>6</sup>The Safe Drinking Water Act, as amended, requires public water systems to take actions to protect drinking water. Public water systems must comply with federal drinking water standards set by EPA based on their type and size. The health based standards set by EPA, considering feasibility, are intended to protect drinking water consumers against certain naturally and man-made contaminants that may be found in drinking water. EPA, states, and water systems each have roles in ensuring that these standards are met. See 42 U.S.C. § 300f *et seq.*

<sup>7</sup>Environmental Infrastructure banks make loans that provide capital for a wide variety of environmental projects within a range of market interest rates.

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**All Mississippi SRF  
Projects Met the February  
17, 2010 Recovery Act  
Deadline**

The Recovery Act required a project receiving Recovery Act funding to be under contract by February 17, 2010, otherwise EPA would have to reallocate the funds. According to the Clean Water SRF and Drinking Water SRF Directors, all projects receiving Recovery Act funds met the February 17, 2010, deadline. The Clean Water SRF Director told us that to ensure that all projects met the February deadline, the program established an internal deadline of February 8, 2010. In contrast, the Drinking Water SRF Director told us that his program did not set an internal deadline, but verbally urged all recipients of Recovery Act funds to award contracts for their projects as soon as possible.

The Clean Water SRF Director also explained that to ensure contracts for Clean Water SRF were signed by the Recovery Act deadline, the program required applicants to complete the design of their proposed project prior to submitting it for loan approval. This requirement, according to the Director, deterred some applicants because they had to plan and design the project without the guarantee that they would receive funding.

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**MDEQ and MSDH Use a  
First Come, First Serve  
Approach to Select  
Recovery Act Projects**

According to both SRF Directors, communities that completed all applicable program requirements and were ready to advertise for construction bids were the first to receive loans made with Recovery Act funds. The Clean Water SRF Director stated that Mississippi's Clean Water SRF program provided Recovery Act funds for the construction of new treatment facilities, replacement of older pumps with more energy efficient models, rehabilitation of sewer lagoons, improvement of levees, and realignment of old sewer lines with new material that will keep sand out of the ground water system. The Drinking Water SRF director told us that the program provided Recovery Act funds to communities to construct new water lines, install new elevated tanks or storage reservoirs, and construct new drinking water booster and pump stations, treatment plants, and water wells.

According to its Director, the Clean Water SRF program chose to forgive a portion of the loan principal on all qualified Recovery Act projects, which means that communities will not be responsible for repaying the portion of their loan provided by Recovery Act funds, but will repay the portion provided with base Clean Water SRF funds. The Director told us that half of all clean water projects that received Recovery Act funding were first time recipients of Clean Water SRF funds. In addition, the Director stated that the program had three large energy efficiency projects that assisted the Clean Water SRF program in meeting the Recovery Act Green Reserve requirement. This requirement, according to both SRF Directors, sets aside

20 percent of Recovery Act funds for projects that address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. Both Directors explained that MDEQ and MSDH were responsible for determining the eligibility of green reserve projects; however, according to EPA's Office of Inspector General, EPA did not develop and issue clear and comprehensive guidance for states on determining green project eligibility until after many states had selected their green projects.<sup>8</sup>

According to the Director, the Drinking Water SRF program chose to use Recovery Act funds to fully forgive the loan principal for some projects and partially forgive the principal for others. The Director explained that communities receiving SRF loans made entirely from Recovery Act funds will not be required to repay any part of that loan. The Director told us that the Drinking Water SRF program provided total principal forgiveness to 4 projects, with the remaining 16 projects receiving a combination of Recovery Act and base SRF dollars.

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### Some Project Bids Are Lower Than State Estimates, While Others Are Higher

The Clean Water SRF Program Director stated that in general contractor bids came in lower than the state's estimates for project costs. The Director explained that the lower bids freed up Recovery Act funds to increase funding for two clean water projects that had not received all allowable principal forgiveness. According to the Director, the state could provide principal forgiveness amounting to 50 percent of the initial loan if the community's median household income was equal to or greater than the state median household income. The amount of the loan principal that could be forgiven increased to 85 percent if the community's median household income was less than the state's median household income. However, the Director explained that the maximum amount of principal forgiveness for any single community was \$5 million.

Specifically, according to the Clean Water SRF Director, the lower bids received for clean water projects freed up \$1.9 million of Recovery Act funds. This, according to the Director, allowed two communities to reduce by \$510,000 the cumulative loan amount that they will be required to repay. In addition, it allowed the SRF program to set aside the remaining

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<sup>8</sup>EPA Office of Inspector General, *EPA Needs Definitive Guidance for Recovery Act and Future Green Reserve Projects*, EPA-OIG Report No. 10-R-0057, February 1, 2010.

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\$1.4 million, or 4 percent of the total amount of Recovery Act funds received by Clean Water SRF, for administrative activities.<sup>9</sup>

According to the Drinking Water SRF Director, although a number of contractor bids for drinking water Recovery Act projects came in under state estimates, overall the bids balanced out. The Director explained that the bids for water distribution projects, such as construction of new water lines, the installation of new elevated tanks or storage reservoirs, and the construction of new drinking water booster and pump stations were lower than department estimates; however, the bids for overhead water tanks, treatment plants, and water wells were higher than state estimates. The Director attributed this difference to the number of contractors available and competition for work.

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### SRF Directors Found EPA Guidance Vague and Open to Interpretation

EPA has been slow to distribute guidance, according to both SRF Program Directors. The Directors told us that the state was left to decide how to monitor the implementation of Recovery Act requirements and provisions and that the guidance EPA provided on other subjects was vague and left to state interpretation. Two Clean Water SRF subrecipients stated that the guidance provided by EPA on substantial transformation for Buy American requirements was unclear and left too much room for interpretation by government inspectors. Section 1605 of the Recovery Act generally requires assistance recipients to use domestic iron, steel, and manufactured goods that are produced in the United States when working on public buildings or public works, though this requirement is subject to multiple exceptions. According to EPA guidance, a manufactured good that consists in whole or in part of materials from another country meets the Section 1605 requirement if it is substantially transformed in the United States into a new and different manufactured good, distinct from the materials from which it was transformed. However, two loan recipients told us that government inspectors are left to decide whether substantial transformation has taken place.

In addition, MDEQ staff also explained that they had challenges dealing with rapidly changing rules and guidance. Clean Water SRF program staff stated that additional work imposed by the Recovery Act and the Office of Management and Budget's issuance of new guidance on reporting job

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<sup>9</sup>The Clean Water Act caps the amount of Recovery Act funds that can be used to support administrative activities at 4 percent. 33 U.S.C. § 1383(d)(7).

creation/retention so close to the recipient reporting deadline increased their workload significantly. However, Clean Water SRF officials told us that the program could not afford to hire additional employees.

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**Existing Controls Used to Monitor Recovery Act Projects**

The Clean Water and Drinking Water SRF programs, according to both SRF Directors, did not make any changes to existing oversight policies and procedures to monitor projects receiving Recovery Act funding. Officials from both programs stated that Recovery Act projects do not require more monitoring than other SRF projects. The Clean Water SRF program administrators told us that all project requirements and responsibilities are clearly stated in contracts signed by project subrecipients and contractors. Both SRF Directors told us that if any project requirements are not met, subrecipients and contractors do not get paid; additionally, MDEQ and MSDH reserve the right to revoke funding and reallocate the money to another project.

According to the program Directors, all SRF projects are monitored by an on-site consulting engineer whether the project is receiving Recovery Act dollars or base SRF dollars. The Directors explained that the consulting engineer is not associated with the contractor responsible for completing the project, but is a contractor for the local governmental entity. The engineer is on-site any time significant work is performed on the project to ensure that contract requirements are met. The Directors also stated that contractors verify that laborers and mechanics are paid prevailing wages by conducting random interviews of all workers at the jobsite. In addition, the Directors told us that contractors submit a certification with each pay request as another way to ensure that workers are paid the prevailing wage, that the random interviews to confirm the wage rate were conducted, and that periodic reviews of a representative sample of the payroll data have been performed. Along with each pay request, contractors also submit a Buy American Certification, which, according to the Directors, assures that all goods used in the project are manufactured in the United States and meet the Buy American requirement of the Recovery Act.

To meet recipient reporting requirements, subrecipients receiving Clean Water SRF or Drinking Water SRF are required to report the number of jobs funded by Recovery Act projects. In some cases, according to the Directors, certified payrolls are required to ensure that the data reported are correct and workers are paid the prevailing wage rate. However, the Directors stated that MDEQ and MSDH do not have the time or manpower to compare the data reported against certified payrolls. Although MDEQ

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and MSDH staff told us that neither program validates the jobs information that is reported by subrecipients of Recovery Act funds, both MDEQ and MSDH check for outliers and ensure that reported data is complete.

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## Recovery Act Funds Benefit Cities, but Do Not Prevent Budget Reductions

We visited two Mississippi cities—Greenwood and Hattiesburg—to assess the impact the Recovery Act is having on local government. Greenwood lies on the eastern edge of the Mississippi Delta, about 96 miles north of the state’s capital, and is the 26th largest city in the state in terms of population. According to a 2008 U.S. Census Bureau estimate, Greenwood’s population is 16,084, which is a decline of approximately 13 percent since 2000. According to the last complete census, about 65 percent of Greenwood’s citizens are African American, 33 percent are Caucasian, and 2 percent are various other races. The census also showed that Greenwood’s median household income is \$21,867, or a little over half of the U.S. median household income. The population of Hattiesburg, which lies about 87 miles southeast of the state capital, is 51,993, according to a 2008 Census Bureau estimate. Between the years of 2000 and 2008, Hattiesburg, Mississippi’s third largest city, increased in population by about 13.2 percent. The racial composition of the city’s residents, according to the last complete census, is about equally split between African Americans (47.3 percent) and Caucasians (49.9 percent), with other races represented by small percentages. Census data also shows that Hattiesburg’s median household income of \$24,409 is larger than that of Greenwood, but still well below the U.S. median household income of \$41,994.

Greenwood is home to several large corporations, including Viking Range, Milwaukee Electric Tool, and Heartland Catfish. Conversely, Hattiesburg, according to Moody’s Investor Services, has developed into a diverse trade and service center, along with becoming a regional health care center. Moody’s reported that Hattiesburg’s largest employers are state-owned Camp Shelby and Forrest County General Hospital. The University of Southern Mississippi is also located within the city and, with an enrollment of approximately 15,000, is the third largest university in the state. In the opinion of Moody’s Investor Services, the presence of the university and other institutional facilities provides some degree of economic stability to the city.

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## Recession Forces Cities to Tighten Budgets

Greenwood and Hattiesburg officials told us that their cities first began to feel the effects of the recession in late 2008 and early 2009. This is supported by unemployment figures that show the unemployment rates

were relatively stable from 2006 through 2007 but rose more than 2 points in 2009 and even more in 2010. With more people out of work, Greenwood and Hattiesburg officials expected sales tax collections to drop, which the cities reflected in their general fund budgets.<sup>10</sup> Table 2 shows each city’s unemployment rates and sales tax collections for fiscal years 2007 through 2010.

**Table 2: Greenwood and Hattiesburg Unemployment Rates and Sales Tax Collections**

Fiscal year	Greenwood <sup>a</sup>				Hattiesburg			
	Unemployment rate	Percent change in rate	Sales tax collections	Percent change in collections	Unemployment rates	Percent change in rates	Sales tax collections	Percent change in collections
2007	10.3%		\$4,453,970		6.4%		\$22,545,201	
2008	9.7%	(0.6%)	\$4,433,128	(0.47%)	6.3%	(0.1%)	\$22,362,399	(0.8%)
2009	12.2%	2.5%	\$4,325,125	(2.4%)	8.3%	2.0%	\$20,594,947	(7.9%)
2010	15.1%	2.9%	\$4,162,000 <sup>b</sup>	(3.8%)	10.5%	2.2%	\$19,500,000 <sup>b</sup>	(5.3%)

Source: Mississippi Department of Employment Security, January 2010 publication and sales tax collections provided by the City of Greenwood and the City of Hattiesburg.

<sup>a</sup>The unemployment rates presented for Greenwood are the rates for LeFlore County, that includes Greenwood. The Mississippi Department of Employment Security does not maintain separate unemployment data for Greenwood.

<sup>b</sup>Fiscal Year 2010 sales tax collections are projections based on collection of sales taxes through March 2010.

Both Greenwood and Hattiesburg reduced general fund expenditures of city departments to address declining sales tax collections. Between 2008 and 2010, Greenwood reduced capital outlays—expenditures for equipment and projects needed to provide city services—to zero for all city departments, with the exception of the police and fire departments. However, the capital outlay budgets for these departments were limited. The city budgeted \$25,000 in 2010 to purchase a fire department vehicle and \$4,220 for police department equipment. In addition to reducing General Fund Capital Outlay budgets, Greenwood’s City Clerk told us that in fiscal year 2010, the city also used some of its cash on hand to balance its operating budget.

Hattiesburg chose to make its primary reductions in city budgets to accounts that pay for services or repairs performed by outside vendors,

<sup>10</sup>Sales tax revenues are accounted for in a city’s general fund, which is the city’s primary operating account.

including services provided by engineers, attorneys, and consultants. Comparisons of the city's fiscal year 2008 and 2010 budgets show that the cumulative reduction to all city departments' budgets for these "other services and charges" was about 29 percent. Hattiesburg's capital outlay budget actually increased between the 2008 and 2010 budgets. However, according to the Chief Financial Officer, the city's increase in capital outlays is partially accounted for by the receipt of Recovery Act funds.

City officials in Greenwood and Hattiesburg told us that reductions to their city's general fund expenditures have prevented layoffs and furloughs of city personnel. However, Greenwood officials told us that they are not replacing personnel who retire or leave the city's employment. Hattiesburg's Chief Financial Officer also told us that the Mayor was not calling for raises for city employees this year, although that has been one of the mayor's major initiatives in prior years.

Recovery Act Dollars Are Beneficial, but Did Not Prevent Budget Reductions or Meet All Critical Needs Recognized by Officials

Funds provided by the Recovery Act, according to city officials, helped Greenwood and Hattiesburg initiate projects that were needed and that would not otherwise have been possible. However, because Recovery Act funds were provided for specific purposes, the funds could not be used to replace all budget cuts made to address declining sales tax collections. In addition, city officials told us that although some of the funds received addressed infrastructure needs, which the officials identified as a priority for their cities, the needs far exceeded the Recovery Act funds received.

Both cities received Recovery Act grants. Greenwood received two, both awarded by the Department of Justice—an Edward Byrne Memorial Justice Assistance Grant (JAG) and a COPS Hiring Recovery Program grant (CHRP). Hattiesburg received four grants, which were awarded by the Department of Energy (DOE), the Department of Housing and Urban Development (HUD), the Department of Transportation (DOT), and the Department of Justice (DOJ). Table 3 presents the Recovery Act grants that Greenwood and Hattiesburg received from the various federal agencies, the amount of each grant, and the specific purpose for which each grant was used.

**Table 3: Recovery Act Funds Received Directly by the Cities of Greenwood and Hattiesburg**

City receiving grant	Funding agency				Planned use of funds
	Department of Justice	Department of Energy	Housing and Urban Development	Department of Transportation	
Greenwood	\$347,052 COPS Hiring Recovery Program Grant (CHRP)				Used to hire three full-time police officers
	\$114,990 Justice Assistance Grant (JAG)				Provides overtime pay for officers to patrol high-crime areas during summer months when crimes are most prevalent
Hattiesburg	\$134,390.40 Justice Assistance Grant (JAG)				Allows the city to purchase six police vehicles
		\$536,400 Energy Efficiency			Allows the removal of an older aeration system from a water treatment facility lagoon and its replacement with a new energy efficient diffusion treatment system
			\$166,632 Community Development Block Grant		Provides for the repair and construction of sidewalks in an area of Woodley Elementary School
				\$991,811 Transit Capital Assistance Grant	Allows the city to purchase one trolley bus and a new transportation management system, as well as reconstruct bus stops to comply with Americans with Disabilities Act requirements

Source: Recovery.gov and interviews with Hattiesburg and Greenwood officials.

The Recovery Act grants provided extra funds for the budgets of some Greenwood and Hattiesburg city departments, but did not affect many other departments whose budgets were reduced as sales tax collections declined. For example, Department of Justice JAG and CHRP grants increased the Greenwood Police Department’s Personnel Services budget by \$462,042, allowing the department to hire additional officers and place more officers on the street for longer hours. However, none of the Recovery Act funds received by Greenwood could be used for other city departments, such as the Public Works and Parks and Recreation departments, whose capital outlays budgets were reduced to zero in fiscal

years 2009 and 2010. Similar to Greenwood, Hattiesburg's Chief Financial Officer told us that the Recovery Act grants increased revenue for some general fund and specific use accounts, but could not be used in ways that would have prevented all general fund budget reductions.<sup>11</sup>

Both Greenwood and Hattiesburg officials identified infrastructure improvements as their city's most pressing need. The Director of Greenwood's Public Works Department told us that the city's streets and sewer lines require immediate attention. The Mississippi Department of Transportation (MDOT) is improving about 2.25 miles of streets in Greenwood with MDOT Recovery Act funds that are available to improve streets considered connectors or collectors of the National Highway System.<sup>12</sup> However, the Director said that many other streets that do not qualify for federal funding are in need of repair.<sup>13</sup> Greenwood budgets show that in 2010, the city had \$151,350 available for this purpose. Although the city does not have a street improvement plan that identifies the cost of making all needed street repairs, the Director told us the cost would greatly exceed the funds available. He also told us that the city's sewer system is aging and badly in need of improvement, and that recently, three cave-ins ruptured sewer lines and forced the city to make emergency repairs. Although the Director did not have an estimate for the cost of sewer projects that are needed in the near future, he told us that he estimated the cost would be significantly more than \$10 million.

Hattiesburg's City Engineer, as well as other Hattiesburg city officials, identified sewer and water improvements as Hattiesburg's greatest needs. However, the engineer also noted that city roads and bridges need improvement as well. According to a plan developed by the city's Public Works Department and engineering consulting firm, within the next 5 years Hattiesburg needs about \$21 million to make water line improvements; around \$6 million for sewer system improvements; and approximately \$47 million to complete 15 road projects and improve aging bridges. In fiscal year 2010, Hattiesburg budgeted about \$9 million to

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<sup>11</sup>Some revenue received by cities is separated from the general fund because it is only available for a specific type of expenditure. For example, a city may establish a Water and Sewer Operation and Maintenance fund that receives revenue from the fees that citizens pay for these services. The revenue in this account can only be used for expenditures that allow the city to provide this service.

<sup>12</sup>23 U.S.C. § 133(b)(1).

<sup>13</sup>23 U.S.C. § 133(c).

### Recovery Act Funds Could Have Been Used to Improve Sewer System

improve water and sewer lines and about \$5.5 million to improve city roads and bridges. However, the \$536,400 DOE grant for improving the aeration of one city lagoon is included in the \$9 million available for water and sewer improvements, which means that about \$8.5 million is available for additional projects in 2010.

Both Greenwood and Hattiesburg would have been eligible for Recovery Act funds to improve their sewer systems through the Clean Water SRF and Hattiesburg could have also applied for Drinking Water SRF funding for new water lines, pumps, and tanks.<sup>14</sup> However, according to the cities' officials, neither Greenwood nor Hattiesburg applied for the funds. According to the Director of Mississippi's Clean Water SRF, using the state's Recovery Act funding, the state could provide principal forgiveness amounting to 50% of the initial loan amount for a project if the community's median household income was equal to or greater than the state median household income. The amount of principal forgiveness, that is, the amount that did not have to be repaid, would increase to 85 percent for communities with a median household income that was less than that of the state. The maximum Recovery Act Clean Water SRF loan principal forgiven for any single community was \$5 million. If Greenwood and Hattiesburg had submitted clean water projects and the state had approved the projects, each city could have qualified for principal forgiveness up to \$5 million. Greenwood officials told us that the city's current administration was unaware that Recovery Act funding was available for sewer improvements.

In addition to being eligible for a Clean Water SRF loan, Hattiesburg might also have qualified for a Drinking Water SRF loan. Similar to the Clean Water SRF program, the amount of principal forgiveness that a community could receive for a Drinking Water project was based on the community's median household income. Hattiesburg's Chief Engineer said that the city was aware that Recovery Act funds were available and intended to apply for them, but the city misunderstood the application deadline.

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<sup>14</sup>According to the Directors of the Clean and Drinking Water programs, projects that met all requirements for eligibility and readiness to proceed were selected to receive Recovery Act funding on a first come, first serve basis.

**Other Local Entities Also Benefit from Recovery Act Funds, but Experience Challenges in Using Funds for Greatest Needs**

Other entities within the cities of Greenwood and Hattiesburg received Recovery Act funds that did not directly affect the two cities’ budgets, but did benefit the cities. Table 4 identifies two Greenwood and four Hattiesburg entities that received Recovery Act funding. During interviews we conducted with each of the six entities, officials described how the Recovery Act funds have benefited and could potentially benefit the populations that their entities serve.

**Table 4: Other Greenwood and Hattiesburg Entities Receiving Recovery Act Funds**

Entity	Program/project funded	Amount received	Realized benefits	Potential benefits
<b>City of Greenwood</b>				
Greenwood Public School District	ESEA Title I <sup>a</sup> ; SFSF <sup>b</sup> ; and IDEA <sup>c</sup>	\$4,486,214	<ul style="list-style-type: none"> <li>• Employment for 15 new staff</li> <li>• Current employee salaries for the 2009 school year</li> <li>• Instructional technology</li> </ul>	<ul style="list-style-type: none"> <li>• Lower incidences of student drop-outs<sup>d</sup></li> <li>• Higher percentages of parental involvement and graduations<sup>d</sup></li> <li>• Better educated public<sup>d</sup></li> </ul>
Housing Authority of Greenwood	Capital Fund Program	\$913,410	<ul style="list-style-type: none"> <li>• Siding, fence replacement, painting, bath tub restoration, and new refrigerators for 408 housing units</li> <li>• Foundation correction for one vacant unit</li> </ul>	<ul style="list-style-type: none"> <li>• Better housing for residents<sup>e</sup></li> </ul>
<b>City of Hattiesburg</b>				
University of Southern Mississippi	Edward Byrne Memorial Competitive Grant; SFSF	\$7,179,888	<ul style="list-style-type: none"> <li>• Seven Campus Security Officer salaries for the 2009 and 2010 school years</li> <li>• 5,226 scholarships for the 2009 school year</li> </ul>	<ul style="list-style-type: none"> <li>• Reduces crime<sup>d</sup></li> <li>• Improves local economy<sup>d</sup></li> </ul>
University of Southern Mississippi State-Wide 1808 Funded School District	IDEA	\$77,503	<ul style="list-style-type: none"> <li>• Employment for three new staff</li> </ul>	<ul style="list-style-type: none"> <li>• Reduces the number of children waiting to enroll<sup>d</sup></li> <li>• Provides additional instructional support<sup>d</sup></li> <li>• Increased parental involvement<sup>d</sup></li> </ul>
Hattiesburg Public School District	Title I; SFSF; and IDEA	\$5,528,151 estimated	<ul style="list-style-type: none"> <li>• Current employee salaries for the 2009 school year</li> <li>• Instructional technology</li> <li>• Professional developmental opportunities for staff</li> <li>• Continued implementation of district-wide school transitional model</li> <li>• Travel funds for early intervention program</li> <li>• Classes for parents of children with disabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Lowers incidences of student dropouts<sup>d</sup></li> <li>• Increased parental involvement<sup>d</sup></li> <li>• Higher percentage of graduations<sup>d</sup></li> <li>• Better educated public<sup>d</sup></li> </ul>

Entity	Program/project funded	Amount received	Realized benefits	Potential benefits
Housing Authority of Hattiesburg	Capital Fund Program	\$551,249	<ul style="list-style-type: none"> <li>New roofs, kitchen cabinets, and HVAC units for single family residences</li> </ul>	<ul style="list-style-type: none"> <li>Better housing for residents<sup>e</sup></li> </ul>

Source: Recovery.gov, and interviewees.

<sup>a</sup>Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended.

<sup>b</sup>State Fiscal Stabilization Fund.

<sup>c</sup>Individuals with Disabilities Education Act, as amended.

<sup>d</sup>Potential Benefits are based on local officials' opinion.

<sup>e</sup>Potential Benefits are based on GAO conclusion.

Officials also explained that the Recovery Act presented certain challenges in using the money in ways that were most needed. In particular, Hattiesburg officials were concerned with Department of Education guidance that suggested that local educational agencies not invest their funding in ways that would result in unsustainable continuing commitments after the act's funding expires. Because of this guidance and the looming threat of additional state budget cuts, officials with the Hattiesburg Public Schools District decided that they could not use their funding to fill positions that would greatly benefit their district, including hiring social workers, nurses, and psychologists. Conversely, the Greenwood Public School District and the University of Southern Mississippi decided to hire staff even though they were unsure as to whether they would be able to continue to pay them after their Recovery Act funds expired.

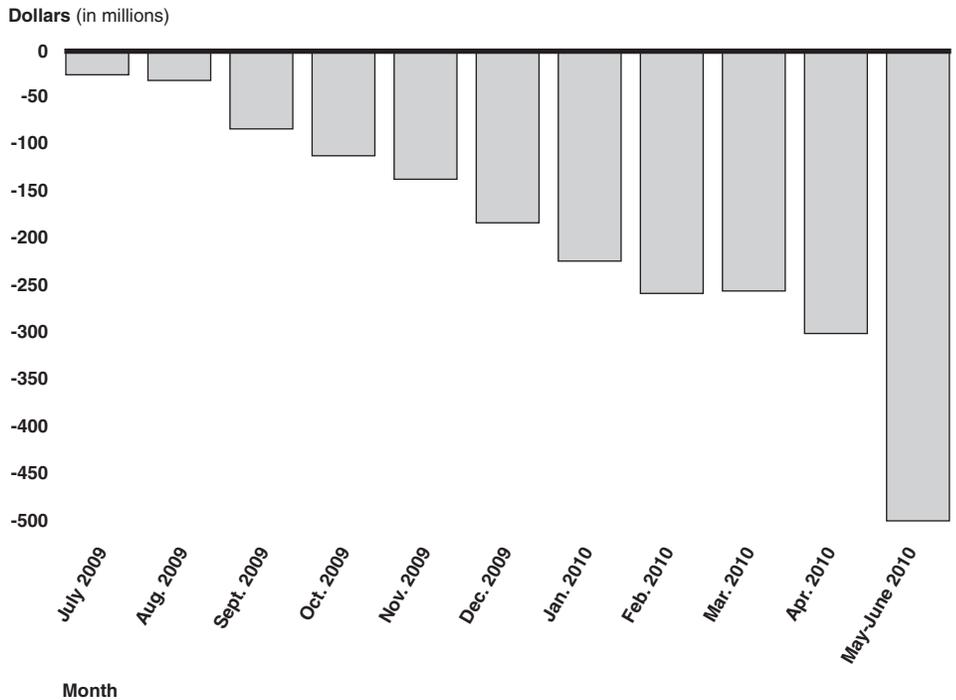
In addition, officials from the Housing Authority of Hattiesburg explained that although the Recovery Act had enabled them to improve many of their 56 single family units, they did not receive enough funding to fulfill the authority's largest need: the construction of new apartment buildings. According to housing authority officials, the authority's current apartment buildings, which were built in the 1940s, are the oldest public housing units in the state. In addition, officials from the housing authority explained that the apartments lack many of the amenities available to low-income families that hold housing vouchers, which means that the housing authority cannot compete with other housing options that are offered to these families.

## Mississippi's Fiscal Challenges Continue

The state of Mississippi continues to experience significant fiscal challenges. While tax revenue collections for fiscal year 2009 were more than \$384 million below estimates, tax revenue collections for fiscal year

2010 are projected to decline even more. As shown in figure 1, tax revenue collections for July 2009 through April 2010, the first 10 months of Fiscal Year 2010, were \$300.4 million or 7.7 percent below expectations. Based upon the current revenue forecast, the expected shortfall for fiscal year 2010 is projected to be \$499.1 million. The major causes for decreasing tax revenue are declines in sales and individual income taxes.

**Figure 1: Aggregate Revenue Shortfall for Fiscal Year 2010**



Source: GAO analysis based on Mississippi Department of Finance and Administration and Joint Legislative Budget Committee documents.

In the face of declining tax revenues, the Governor ordered a series of reductions to state agencies' fiscal year 2010 budget expenditures totaling \$499.1 million, or about 9.5 percent. According to the Governor, he is statutorily prohibited from cutting an agency's budget by more than 5 percent until he has cut spending for all agencies by 5 percent. After reaching the 5 percent threshold, the Governor may make additional cuts, but those reductions must be equal across all agencies. The budget cuts reduce fiscal year 2010 funding for education by approximately \$319.6 million while reducing funding for non-education agencies by about \$179.5 million.

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## Recovery Act and Rainy Day Funds Used to Reduce Impact of Revenue Shortfall

Funding provided by the Recovery Act and “rainy day funds” have helped Mississippi reduce the impact of tax revenue shortfalls in fiscal years 2009 and 2010, but have not stabilized the budget, as evidenced by the continuing budget cuts.<sup>15</sup> The Governor has also proposed using these funds to help reduce the impact of projected revenue shortfalls in fiscal year 2011.

The use of Recovery Act funds must comply with specific program requirements, but also, in some cases, enables states to free up state funds to address their projected budget shortfalls. Mississippi was able to use Recovery Act funds in this manner. The Mississippi legislature approved the fiscal year 2010 Mississippi state budget using more than \$523 million of Recovery Act funds to bring it into balance. The legislature appropriated \$111.5 million and \$19.6 million of State Fiscal Stabilization Fund monies for K-12 education and institutions of higher education (IHE), respectively. This amount, plus \$78.5 million of Recovery Act education stabilization funds appropriated in fiscal year 2009 that were carried forward into fiscal year 2010 freed up \$209.6 million in General Funds that had been planned for K-12 education, IHEs, and community colleges. In addition, a provision of the Recovery Act that increased the Federal Medical Assistance Percentage (FMAP) requirement made another \$313 million available by lowering Mississippi’s share of Medicaid costs, which made a like amount of state funds available for other uses. According to a state budget official, these state funds were redirected to other programs. Likewise, more than \$201 million in State Fiscal Stabilization Fund monies and funds made available as a result of increased FMAP were used to reduce the impact of revenue shortfalls on the fiscal year 2009 budget.

The Governor has proposed using \$383 million of Recovery Act funds to offset revenue shortfalls in the fiscal year 2011 budget that begins July 1, 2010. Table 5 shows the planned use of these funds.

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<sup>15</sup>The Mississippi rainy day fund, normally called the Working Cash-Stabilization Reserve Fund, is intended, among other uses, to cover any projected deficits that may occur in the general fund at the end of a fiscal year as a result of revenue shortfalls. Miss. Code § 27-103-203.

**Table 5: Proposed Use of Recovery Act Funding in Fiscal Year 2011 Budget**

<b>State Program</b>	<b>Amount</b>
Hospital and Hospital Schools	\$22,969,561
Institutions of Higher Learning, Agricultural Units	1,681,525
Public Education	128,365,837
Higher Education	74,686,001
Social Welfare	154,171,907
Public Health	1,316,501
<b>Total</b>	<b>\$383,191,332</b>

Source: Mississippi Fiscal Year 2011 Proposed Budget.

Mississippi has also used its rainy day funds to reduce the impact of declining tax revenues. To help close out and balance the fiscal year 2009 budget, the State Fiscal Officer transferred almost \$20 million of rainy day funds to the general fund. Similarly, the legislature transferred \$65.2 million of rainy day funds to the Budget Contingency Fund to help cover a projected shortfall in the 2010 general fund budget.<sup>16</sup> The Governor has also proposed using \$80 million in rainy day funds to cover projected shortfalls in the fiscal year 2011 budget. If the legislature approves the Governor’s proposal, this would leave a balance of some \$80 million in rainy day funds for fiscal year 2012 and 2013, years in which the Governor predicts revenues may continue to decline.

## Planning for the End of Recovery Act Funds

The Governor’s assessment is that Mississippi faces significant fiscal challenges beyond fiscal year 2010. He believes that revenue is unlikely to significantly rebound in the years to come and that savings in excess of \$715 million will be necessary to balance the shortfall for fiscal year 2011. According to the Governor, fiscal year 2012 will be even bleaker. Current projections indicate that Mississippi will be faced with a budget gap of more than \$1.2 billion during fiscal year 2012.

In anticipation of continuing revenue shortfalls and the end of stimulus funding, the Governor has proposed, as part of the fiscal year 2011 budget,

<sup>16</sup>The Budget Contingency Fund was created in 2001 by the legislature to identify nonrecurring funding—such as funds received from a legal judgment—that the legislature could use in the budget process. The sources of funds deposited in the Budget Contingency Fund can differ from Special Fund transfers to the General Fund that are identified as nonrecurring.

a number of steps to reduce spending and restructure how the state government operates. These steps include:

- Reducing the fiscal year 2011 budget for most state agencies 12 to 17 percent below fiscal year 2010 appropriations;
- Asking all state agencies to find innovative solutions to trim the budget, including reviewing and renegotiating all contracts to reduce their cost by 5 to 10 percent;
- Requesting that the legislature
  - consider major reforms and restructuring of state departments and agencies;
  - allow department and agency heads maximum flexibility in managing their agencies, including allowing lump sum budgeting and streamlining of departments by exempting them from State Personnel Board rules for two years;
  - consider adopting proposals for a strategic statewide plan, reforming performance based budgeting, and creating a state agency from existing entities to provide continuous review and improvements of state government operations
- Reducing administrative costs in the state's educational system by consolidating school districts to reduce short-term administrative costs; and
- Reforming the state's community and junior colleges as well as universities to help reduce administrative costs.

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## Mississippi Initiated Several Efforts to Ensure Accountability for Recovery Act Funds

To ensure accountability and oversight over federal funds received by Mississippi, OSA conducts, on an annual basis, a "Single Audit" that reports on internal controls over financial reporting and compliance with pertinent laws and regulations. With regard to Recovery Act funding, OSA reported that the Mississippi Department of Employment Security did not record \$23,999,054 of Recovery Act funding for unemployment insurance on its accounting records even though these funds were expended, thereby understating both revenues and expenditures by this amount.<sup>17</sup> In addition, the agency did not report these funds on the Schedule of Expenditures of Federal Awards. As a result of these audit findings, an adjustment was made to properly account for the funds. MDES also agreed to strengthen controls and improve supervisory review of these funds and to move financial management responsibilities for the Unemployment

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<sup>17</sup>State of Mississippi, Single Audit Report for the Year Ended June 30, 2009.

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Insurance Trust Fund to the Office of the Comptroller, Business Management Department.

In addition to normal oversight of federally funded programs, Mississippi has undertaken several efforts to hold state recipients accountable for the Recovery Act funds that they receive. National accounting firms, under the auspices of OSA and DFA, are carrying out two of these efforts. Other more limited efforts are being carried out by other state agencies. In addition, one local government that we visited intends to audit Recovery Act funds received by the city.

OSA has contracted with a certified public accounting and advisory firm, BKD, to conduct monitoring and oversight of Recovery Act funds. BKD is expected to monitor entities such as local governments, not-for-profit organizations, community health centers, and school districts. According to an OSA official, the reviews will not include state agencies, which are being monitored by the DFA.

Overall, OSA expects that its contract with BKD will allow the firm to monitor about 85 to 90 percent of all local entities receiving Recovery Act funds. This includes all school districts, with an emphasis on 43 school districts identified by the Mississippi Department of Education as the districts most at risk, and all community action agencies weatherizing homes. An OSA official explained that each site visit will determine if an entity receiving Recovery Act funds is complying with requirements, such as paying laborers and mechanics the prevailing wage for the area, following published guidelines in reporting on the uses of the funds, and, awarding contracts that include all required terms and conditions. According to officials, OSA's primary objective is to determine if internal control changes are needed and to provide an audited entity with specialized training or individualized technical assistance, if it is needed. However, if BKD's reviews should find fraud, OSA's performance division will refer the issue to its Investigative Division.

Based on a review of selected BKD reports, we noted that some weaknesses were consistent across most of the audited entities. For example, BKD found that internal controls for the preparation and review of recipient reports were either not effective or not in place; supporting documentation for the jobs that grant recipients reported as part of their recipient reports was not available; and jobs were not calculated according to the latest OMB guidance. An OSA official stated that OSA is reviewing BKD's reports and expects to identify trends that can be shared with the Governor's office, DFA, and others.

In addition to OSA's efforts, DFA is monitoring internal controls of state agencies receiving Recovery Act funds to ensure that they are spent responsibly and effectively while maintaining the appropriate controls and reporting mechanisms necessary for accountability and transparency. DFA has contracted with national accounting firm KPMG LLP to assist with monitoring thru June 30, 2011. KPMG and DFA officials stated that if they identify gaps in an agency's internal controls, DFA will work with the agency to correct the deficiencies, or if fraud is identified, DFA will notify OSA.

DFA and KPMG jointly developed a risk assessment tool that summarizes financial risk, internal controls, public interest risks, and operational and delivery risks. Monitoring may be prioritized based on the total scoring of each individual grant and/or high risks in one or more individual areas. Before its contract ends, KPMG will conduct on-site visits to all state agencies receiving Recovery Act funds. After each on-site visit, KPMG will provide a document identifying observations, potential next steps for the agency, and actions that DFA should consider, including the addition of new monitoring procedures.

Some state agencies and cities that we visited also expect to provide oversight of Recovery Act projects. For example, the Mississippi Department of Transportation's internal audit office provides limited oversight of Recovery Act contracts and in the near future, the City of Jackson plans to initiate an audit of Recovery Act funds awarded to the city.

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## State Comments on This Summary

We provided the Governor of Mississippi with a statement of facts on the Mississippi Appendix on May 3, 2010. The General Counsel to the Governor, who serves as the stimulus coordinator, responded for the Governor on May 6, 2010. The official provided technical suggestions that were incorporated, as appropriate.

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## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Barbara Haynes, Assistant Director; James Elgas, analyst-in-charge; Anna Russell; Gary Shepard; Erin Stockdale; and Ryan Stott made major contributions to this report.

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# Appendix XII: New Jersey

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## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in New Jersey. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

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## What We Did

We reviewed four specific programs funded through the Recovery Act: Clean Water and Drinking Water State Revolving Funds (SRF), Highway Infrastructure Investment Program, Public Housing Capital Fund, and COPS Hiring Recovery Program (CHRP). We selected these programs for various reasons. The SRF, highway, and public housing programs all had 1-year obligation or contracting deadlines during the course of our review. Our work focused on the ability of these programs to meet the 1-year deadlines and challenges agencies faced in meeting them. (For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).) To gain a further understanding of these issues, we met with state agency officials and conducted site visits to SRF subrecipients in Long Branch and the Borough of Beach Haven and public housing agencies in Elizabeth and Bergen County. We selected the SRF subrecipients because they incorporated green components into their projects, which was a new requirement under the Recovery Act. We selected the public housing agencies because they had obligated less than 50 percent of their Recovery Act funds as of January 30, 2010, and were required to have 100 percent of these funds obligated by March 17, 2010.<sup>2</sup> New Jersey CHRP recipients used more of their grant funds to hire new officers rather than to avoid layoffs or rehire officers compared to the national average. We met with officials from the East Orange and Trenton Police Departments to gain an understanding of their need for additional officers and the impact of the CHRP funds on their policing efforts.

In addition to the four program-specific reviews, we also interviewed state and local budget officials about their use of Recovery Act funds and the impact of these funds on state and local budgets. We selected three

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

<sup>2</sup>We also obtained follow-up information from the Newark Housing Authority and Rahway Housing Authority on the impact, if any, the Recovery Act funds had on their ability to administer their regular public housing capital funds. These housing agencies had obligated more than 50 percent of their public housing capital funds as of January 30, 2010 and were therefore not a focus of this review.

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counties and one city—the Counties of Bergen, Burlington, and Cape May, and the City of Newark—to gain a deeper understanding about the use and impact of Recovery Act funds. The localities were selected based on various factors, including population, unemployment rates, type of government, and geographic dispersion. Finally, to gain an understanding of state efforts to oversee and monitor the use of Recovery Act funds, we interviewed officials from the state’s accountability community about their oversight roles and audits related to Recovery Act funds.

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## What We Found

- **SRF.** The New Jersey Department of Environmental Protection (DEP) received approximately \$162 million in Recovery Act funds for the Clean Water SRF program and approximately \$43 million in Recovery Act funds for the Drinking Water SRF program. For example, the Long Branch Sewerage Authority received \$7.5 million under the Clean Water SRF to make improvements to its wastewater treatment plant and the Borough of Beach Haven received \$3.1 million under the Drinking Water SRF to install residential water meters. DEP changed its priority ranking systems and financing for the Recovery Act SRF program to ensure Recovery Act deadlines and requirements, such as the 1-year deadline to have all Recovery Act projects under contract by February 17, 2010, were met. According to local officials, these changes delayed the implementation of some projects under the base and Recovery Act SRF programs.<sup>3</sup>
- **Highways.** The U.S. Department of Transportation’s Federal Highway Administration (FHWA) apportioned \$652 million in Recovery Act funds to New Jersey and obligated New Jersey’s full apportionment by the 1-year deadline of March 2, 2010. However, the New Jersey Department of Transportation (NJDOT) faced challenges in meeting the deadline due, in part, to contracts being awarded at prices lower than state cost estimates. As a result of the lower contract prices, funds had to be deobligated by FHWA and obligated on new projects. Some of these deobligated funds became available for obligation close to the 1-year deadline and required NJDOT to identify additional projects in a short time period. Although NJDOT is not directly assessing the impact of Recovery Act funds on the state highway system, NJDOT officials stated the funds have allowed them to, among

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<sup>3</sup>The base SRF program refers to all SRF funds generated through yearly appropriations, state-match, or repaid loans and does not include Recovery Act funds.

other things, rehabilitate or replace deficient bridges and pavement at both the state and local levels.

- **Public Housing Capital Fund.** New Jersey's 80 public housing agencies met the 1-year obligation deadline of March 17, 2010, obligating \$104 million in Recovery Act funds. The U.S. Department of Housing and Urban Development (HUD) field office provided guidance and technical assistance to help public housing agencies meet the obligation deadline. Despite the condensed time period, HUD officials, as well as officials from the public housing agencies we visited, stated that the obligation of their regular public housing capital funds is on track compared to previous years.
- **CHRP.** A total of 18 law enforcement agencies in New Jersey received CHRP grants totaling \$26.8 million. Officials from the East Orange and Trenton Police Departments told us their departments were understaffed due to budget constraints, and therefore used their CHRP funds to hire additional officers. Specifically, East Orange received funds to hire 14 additional officers over a 3-year period, and Trenton received funds to hire 18 additional officers. Officials from both police departments stated that they are confident they will be able to meet the requirement to retain officers for one additional year after the 3-year CHRP grant expires because they anticipate retirements over the next 3 years. As of April 1, 2010, East Orange had obligated about \$1.4 million and expended about \$20,606 of its CHRP grant, and Trenton had obligated its entire CHRP grant and expended \$352,289.
- **Budget stabilization.** Although Recovery Act funds helped New Jersey stabilize its budget, New Jersey faced a \$2.2 billion budget gap in its current year budget and faces a larger projected shortfall of \$10.7 billion for fiscal year 2011. The localities we visited also face budget challenges and may be unable to retain some positions funded by the Recovery Act. However, these localities largely used their Recovery Act funds for nonrecurring projects and to maintain services. For example, the County of Burlington received Recovery Act funds for 14 programs and used these funds for delivering meals to the elderly, homelessness prevention, and workforce training, among other things.
- **Accountability efforts.** New Jersey's Recovery Accountability Task Force continues to hold regularly scheduled meetings on the use of Recovery Act funds by state agencies. The Office of the State Comptroller and the Office of the State Auditor recently issued audit reports on the use of Workforce Investment Act of 1998 (WIA) and Weatherization Assistance Program funds, respectively. The

weatherization audit identified internal control weaknesses in the oversight of Recovery Act funds and made recommendations to strengthen accountability over the use of these funds.

## New Jersey Met Recovery Act SRF Requirements and Is Using Existing Controls to Ensure Accountability

New Jersey received approximately \$205 million in Recovery Act funds for its Clean and Drinking Water SRF programs. Specifically, the Clean Water SRF program, which is designed to provide assistance in constructing publicly owned wastewater treatment plants and implementing other types of water quality projects, received approximately \$162 million. The Drinking Water SRF, which provides assistance to public water systems in meeting the requirements of the Safe Drinking Water Act, received approximately \$43 million. New Jersey used its Recovery Act SRF funding to fund 44 Clean Water SRF projects and 19 Drinking Water SRF projects in 20 of the 21 counties in New Jersey. We visited the Long Branch Sewerage Authority, a Clean Water SRF subrecipient, and the Borough of Beach Haven, a Drinking Water SRF subrecipient, during the course of our review. Information about these subrecipients is summarized in table 1.

**Table 1: Summary of Recovery Act Clean Water SRF and Drinking Water SRF Projects Visited by GAO**

Project category	Clean water	Drinking water
Location	Long Branch, N.J.	Beach Haven, N.J.
Description	Improvement of a wastewater treatment plant that includes installation and replacement of equipment to make the plant more energy efficient, which is intended to provide cost savings.	Installation of residential water meters for all residential units to provide greater incentive for residents to conserve water and, upon installation, the ability for the city to electronically monitor water readings and usage.
Total cost	\$13.7 million	\$4.1 million
Total Recovery Act funding	\$7.5 million	\$3.1 million
Total green Recovery Act funding	\$2.5 million	\$3.1 million

Source: DEP.

New Jersey’s Recovery Act and base SRF programs are administered jointly by DEP and the New Jersey Environmental Infrastructure Trust (EIT). Through this partnership, DEP manages aspects of the SRF program including project approval, document reviews, project certification, and construction oversight. EIT works directly with DEP, and based on DEP’s project approval, provides a portion of the project financing to every project funded through the SRF program in addition to overseeing the credit worthiness of borrowers, preparing loan agreements, and processing payments of these loan funds.

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New Jersey Revised Its Ranking Systems and Financing to Meet Recovery Act Requirements, Which Delayed the Implementation of Some SRF Projects

DEP officials told us they revised their existing priority ranking systems and financing to ensure Recovery Act requirements and deadlines would be met. Under the base SRF programs, DEP assigned points to projects based on various factors, such as improvement to the local environment, impact on public health, type of water facility, primary use of water, water quality, and population of the area to be impacted. DEP officials told us that improvements to wastewater treatment facilities scored high under the Clean Water SRF ranking system because these projects were a priority under the base SRF program. However, DEP slightly revised the ranking systems to ensure Recovery Act SRF program requirements and time frames would be met. For example, officials told us that they were concerned about meeting the requirement to reserve 20 percent of Recovery Act funds for green projects, which includes green infrastructure, water and energy efficiency, and innovative environmental projects. Therefore, projects that could qualify as green were ranked higher on the priority list for Recovery Act funding. In addition, DEP gave priority to projects that were considered shovel-ready in order to ensure that they would meet Recovery Act time frames, including that all Recovery Act SRF project funds be under contract within 1 year.<sup>4</sup>

New Jersey also set up favorable financing in order to distribute Recovery Act SRF and base SRF funding to more subrecipients. In the past, base SRF projects were funded through a combination of a zero percent interest and market-rate loans through EIT that each accounted for 50 percent of the project's cost. Officials told us that based on U.S. Environmental Protection Agency (EPA) guidance they developed more favorable loan terms for Recovery Act projects. Specifically, DEP provided each eligible project a combination of principal forgiveness loans using Recovery Act funds (50 percent), zero percent interest loans using Recovery Act funds (25 percent), and market-rate loans through EIT (25 percent). DEP capped the total amount of Recovery Act SRF funds for an individual project at \$7.5 million, meaning that a \$10 million project would receive \$7.5 million in Recovery Act SRF funds and \$2.5 million in market-rate loans administered through EIT.<sup>5</sup> Officials told us they capped this

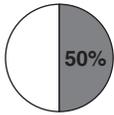
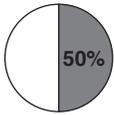
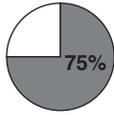
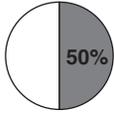
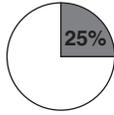
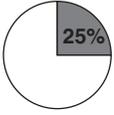
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<sup>4</sup>The Recovery Act required each state to prioritize funds for projects that are ready to proceed to construction within 12 months of enactment of the Act (by February 17, 2010) and directed EPA to reallocate any funds that were not under contract by this date.

<sup>5</sup>If the total project cost is more than \$10 million, the balance of the costs are funded through a combination of zero percent interest loans using base SRF funds (75 percent) and additional market rate loans through EIT (25 percent).

total at \$7.5 million per project because they wanted to spread out Recovery Act SRF funds to a number of projects rather than to only two or three large projects. In addition, DEP officials told us that for their base SRF programs, they utilized a state stimulus program initiated by the Governor’s office for projects that did not qualify for Recovery Act SRF funds under the revised ranking system or because they were unable to meet deadlines. These projects received a combination of zero percent interest and market rate loans that were more favorable than previous years’ base SRF funding. (See fig. 1 for a summary of the state’s SRF financing mechanisms.) Officials believe that due to the attractive financing structure of both their Recovery Act SRF and base SRF programs that they were able to fund more projects. For example, DEP funded 164 SRF projects in 2009, up from 81 projects in 2008.

**Figure 1: New Jersey SRF Loan Terms in Previous Years and Fiscal Year 2009**

Financing incentives	Principal forgiveness loan	Zero percent interest loan	Market rate loan
Previous years’ base SRF projects	Not Applicable		
Fiscal year 2009 base SRF projects	Not Applicable		
Recovery Act projects			

Source: DEP.

Although DEP revised its priority ranking and financing mechanisms to ensure that Recovery Act milestones were met, these changes delayed the implementation of some SRF projects, according to local officials. For example, according to Long Branch Sewerage Authority officials, projects that were on the base SRF priority list or that planned to apply for base SRF funding before the Recovery Act SRF funds were announced were passed over by new projects seeking the improved financing structure provided by the Recovery Act SRF program. These officials stated that projects already in the pipeline should have been given preference for the Recovery Act funds because they were considered priority projects before Recovery Act SRF funding became available. Furthermore, a Beach Haven project engineer told us that he submitted six applications for Recovery

Act funds on behalf of various localities, but only the Beach Haven project was selected. According to the project engineer, the Beach Haven project was likely selected because it helped address the green reserve requirement. However, according to the project engineer, DEP did not provide guidance on the criteria it planned to use to select projects to receive Recovery Act funds when it issued its call for applications. As a result, the engineer had to wait for DEP to review all of the applications before receiving authorization to advertise projects that were not selected to receive Recovery Act funds. The project engineer stated that although these projects were ultimately funded through the base SRF program, their implementation was delayed by about 6 months.

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### New Jersey Met the 1-Year Contracting Deadline, Despite Facing Challenges

New Jersey successfully met the 1-year deadline to have 100 percent of Recovery Act SRF funds under contract by February 17, 2010, but experienced challenges in meeting this requirement. Specifically, DEP officials identified the following challenges in meeting the deadline:

- *Administering a record number of applications.* DEP officials told us that they put out a statewide call for clean and drinking water projects in December 2008 in anticipation of receiving Recovery Act SRF funds and received 421 applications, which was twice the number of applications that they normally receive for their base SRF programs. Officials told us that while the influx of applications demonstrated a statewide need for the funds, it also created an administrative burden for DEP because of staff retirements and the inability to fill key positions because of the state's budget situation. To address the staffing shortage, DEP officials told us they reassigned DEP personnel from other internal departments to ensure that 100 percent of their Recovery Act SRF program funds were under contract by the 1-year deadline, and used EPA consultants to oversee their base SRF program. DEP officials told us the ability to use EPA consultants to work on their base SRF program was instrumental in helping New Jersey meet the 1-year deadline.
- *Complying with the Recovery Act's Buy American provision.* DEP officials told us that they set internal state deadlines prior to the February 17th deadline to ensure that any potential savings from contracts being awarded at prices lower than state cost estimates could be used for other eligible Recovery Act SRF projects. However, DEP officials told us that EPA provided guidance on the Buy American provision late in the application process, which caused confusion for both DEP and the applicants about eligibility and slowed down the contracting process. For example, officials from the Long Branch

Sewerage Authority stated that different project equipment may have been needed to ensure compliance with the Buy American provision and the guidance should have been provided sooner. Instead, officials told us they had to go back to their vendors to ascertain compliance, which was both burdensome and time-consuming. In addition, officials told us that the Buy American provision is not always the best for subrecipients because the best equipment for a specific project may not be American-made.

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**DEP is Using Existing Processes to Monitor Compliance with Recovery Act Requirements, but Inconsistencies Exist in Recipient Reporting**

DEP officials told us that they are using existing monitoring procedures for Recovery Act SRF projects. That is, DEP will continue to conduct on-site monitoring of all base SRF recipients and Recovery Act SRF subrecipients on a quarterly basis, as well as conduct inspections at each quarter completion interval for individual projects in order to ensure subrecipients are complying with Recovery Act requirements, providing appropriate documentation, and completing work in accordance with the project contract. Additionally, DEP requires SRF subrecipients to hire a project engineer to oversee the daily aspects of the project, monitor contractors, and approve contractor invoices. The state, in turn, oversees the engineer and monitors and approves contract modifications as needed to ensure the project is meeting the requirements of Recovery Act SRF funding. A Beach Haven official concurred with this and told us that DEP makes unannounced site visits to verify construction is proceeding as planned and prevailing wages are being paid.

DEP provided guidance to localities on recipient reporting, but we found inconsistencies among subrecipients on what hours need to be reported. DEP officials told us that they require each subrecipient to submit a quarterly jobs reporting form on their hours worked, expressed as full time equivalents (FTE), and provide a narrative explanation on the types of jobs created 15 days before the end of each quarter. For example, for the first quarter of 2010, which ended March 31, they required subrecipients to submit their jobs reporting information on March 15, for the number of FTEs worked during the months of December 2009, January 2010, and February 2010. DEP officials told us that they developed an early reporting deadline to ensure that subrecipients and DEP met federal quarterly recipient reporting requirements. However, by reporting one month early, DEP is collecting FTE data that is inconsistent with how OMB defines a quarter for recipient reporting purposes and is inconsistent

with the way that other Recovery Act funded agencies report the data.<sup>6</sup> Thus, its data will not be comparable to that supplied by other recipients.

DEP requires subrecipients to report total FTEs for both Recovery Act- and non-Recovery Act-funded portions of their project, and DEP then prorates the totals using EPA's SRF reporting databases to calculate jobs created by Recovery Act SRF funding. Specifically, 75 percent of the jobs are attributed to the Recovery Act SRF program because 75 percent of the project's costs are funded using Recovery Act SRF funds.<sup>7</sup> Some subrecipients we spoke with told us that recipient reporting requirements are fairly easy to follow and they have received adequate guidance from DEP. However, we also found some inconsistencies among subrecipients on the hours reported. For example, we contacted additional Clean Water SRF subrecipients about the hours used to calculate their FTEs.<sup>8</sup> In one case, a subrecipient included hours worked by the project engineer in their FTE calculation, and in another case, a subrecipient did not include the project engineer's hours. According to DEP officials, they did not include engineering hours in the FTE calculation because they were advised by the EPA consultants overseeing their SRF reporting databases that because project engineers are not responsible for the actual construction of the projects, they are not considered prime contractors. However, based on additional guidance DEP received during the course of our review, it plans to include project engineers' hours in the FTE calculation going forward.<sup>9</sup>

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<sup>6</sup>According to the Office of Management and Budget's (OMB) December 18, 2009 guidance, recipient reporting for the first quarter of 2010 should include FTEs worked in January, February, and March 2010.

<sup>7</sup>Projects costs that exceed \$10 million will have a lower ratio of FTEs attributed to Recovery Act funding since Recovery Act funds cannot exceed \$7.5 million of a project's total cost.

<sup>8</sup>We contacted Bayonne Municipal Utilities Authority, City of Newark, and Stony Brook Regional Sewerage Authority about their experience with recipient reporting.

<sup>9</sup>DEP received updated guidance from the consulting firm that oversees its EPA Clean Water and Drinking Water reporting databases stating that FTEs and payroll dollars should be reported for engineering firms working directly for Recovery Act SRF loan recipients.

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## NJDOT Is Meeting Recovery Act Milestones and Identified Benefits of the Funds

FHWA apportioned \$652 million in Recovery Act funds to New Jersey for highway infrastructure and other eligible projects. The federal government obligated the state's full apportionment of \$652 million by the 1-year deadline of March 2, 2010. As of May 3, 2010, \$177 million had been reimbursed by FHWA. As of May 3, 2010, New Jersey had awarded 79 contracts for \$504 million. Of those awarded contracts, 68 awarded for a value of \$494 million were under construction, of which 10 awarded for a value of \$17 million were substantially complete.

In accordance with the Recovery Act, states needed to ensure that all apportioned highway funds, including suballocated funds, were obligated within 1 year (by March 2, 2010). Although NJDOT met the Recovery Act's obligation deadline, as the deadline approached, the agency and other stakeholders, including the FHWA division office, state Metropolitan Planning Organizations (MPO),<sup>10</sup> and local government units, had concerns about whether the deadline would be met. As required under the Recovery Act, about \$196 million was suballocated in New Jersey, primarily based on population, for metropolitan, regional, and local use. As we previously reported, the state had been slow in having FHWA obligate its suballocation for projects planned by local agencies.<sup>11</sup> Officials' concerns rested in part with local transportation enhancement projects, such as bike and pedestrian improvements, whose planning, preparation, and need for more extensive local involvement and different funding streams took longer to complete. According to FHWA officials, funds for the last project were obligated about a week before the deadline.

NJDOT officials stated that the savings from bids being received that were lower than the state's estimated costs also presented challenges in meeting the 1-year obligation deadline. According to NJDOT officials, bids on projects continue to come in 10 to 12 percent lower than state cost estimates. Lower bids on highway infrastructure and other eligible projects have produced savings of about \$45 million that NJDOT immediately requested FHWA deobligate and then reprogrammed for other projects. Officials stated that the \$45 million in funds associated with

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<sup>10</sup>MPOs are federally mandated regional organizations, representing local governments and working in coordination with state departments of transportation that are responsible for comprehensive transportation planning and programming in urbanized areas. MPOs facilitate decision making on regional transportation issues, including major capital investment projects and priorities.

<sup>11</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, GAO-10-232SP (Washington, D.C.: Dec. 10, 2009).

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savings from these contract awards were reprogrammed for six additional projects—four state highway projects for \$40 million and two additional local projects for \$5 million—before the March 2, 2010 obligation deadline. However, NJDOT officials said that a joint effort with all stakeholders, including the FHWA division office and state MPOs, was needed to identify local projects that were ready for construction and could utilize the funds. NJDOT officials stated that if it continues to realize substantial savings from bids coming in lower than cost estimates, the agency may be challenged to identify additional projects that are ready for construction.

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### Although NJDOT and FHWA Are Not Directly Measuring the Impact of Recovery Act Funds, Officials Identified Benefits

According to NJDOT officials, the state of New Jersey currently has 48 state highway projects and 115 county and municipal projects that are utilizing Recovery Act funds. However, NJDOT and FHWA are not directly measuring the impact that Recovery Act funds have on the state's highway system. NJDOT and FHWA have not directly measured impact because they are not required to and stated that it would be difficult and time-consuming for the following reasons:

- Recovery Act funds for highway infrastructure improvements are frequently used in conjunction with the state's matching share, as well as other federal contributions, so it is difficult to identify the unique effect of Recovery Act funds;
- it is too early to quantify impact as local projects have not yet started and most of the state's projects, 42 out of a total of 48, are ongoing and will not be completed until the end of the calendar year; and
- detailed guidance on the type of information to collect and the portion of a highway project to include would be needed.

Although NJDOT has not measured the impact of Recovery Act funds on its highway system, NJDOT officials identified several benefits these funds have had for the state. NJDOT officials said that the biggest impact of Recovery Act funds was that they allowed the department the opportunity to address critical infrastructure needs at the state and local levels and to relieve the funding pressure for over \$1 billion in projects that, prior to the Recovery Act, were deferred from year to year due to state financial constraints. For example, Recovery Act funds have allowed NJDOT to rehabilitate or replace deficient bridges and pavement at both the state and local levels and to make other repairs and improvements to its highway system (see table 2).

**Table 2: NJDOT Summary of Projects Attributed to the Recovery Act**

Type of project	Projects attributed to the Recovery Act <sup>a</sup>
State	About 240 lane miles resurfaced or rehabilitated 45 interstate highway bridges and 2 movable bridges painted 40 bridge decks preserved 27 structurally deficient bridges rehabilitated or replaced 18.6 miles of guide rail installed 5 priority drainage locations addressed
Local	55 pavement projects undertaken 9 intersections improved 5 bridges rehabilitated or replaced 2 bridges painted 1 dam repaired

Source: NJDOT.

Note: According to NJDOT, all but a few of these construction projects were fully funded with Recovery Act funds. Other phases, such as design, may have been funded with other sources. GAO did not independently verify the accuracy or completeness of the information shown in this table.

<sup>a</sup>Other projects addressed with Recovery Act funds include bike/pedestrian projects; other local guide rail projects; rail rehabilitation; road realignment and pavement marking; projects to improve signalization and address Americans With Disability Act requirements; and projects to renovate historic train stations.

In addition to addressing critical infrastructure needs in the state, NJDOT identified qualitative impacts of Recovery Act funds. For example, Recovery Act funds have led to improved interagency relationships and coordination between federal, state, and local transportation departments and have increased local recipients’ understanding of the federal funding process. In addition, the state has modified its internal practices to streamline the project review and approval process. For example, NJDOT is now taking responsibility for completing federal environmental documents that were formerly done by local project recipients and is also loaning them consultants with technical expertise in developing project plans and knowledge of the federal application process. Finally, NJDOT officials told us that they believe that Recovery Act funds are serving the intended purpose of improving infrastructure and creating jobs.

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**New Jersey Is On Track to Meet Its Maintenance-of-Effort Requirement This Year but It May Be an Issue in the Future**

Under the Recovery Act, a state must certify that it will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009, through September 30, 2010.<sup>12</sup> To meet its maintenance-of-effort requirement, NJDOT uses expenditures from the state's transportation trust fund. NJDOT officials stated the trust fund has the bonding capacity to support a state-funded transportation program and receives its funds primarily from the state gas tax.

As of February 17, 2010, the state had met 79 percent, or \$1.244 billion of its \$1.571 billion, maintenance-of-effort requirement. Both NJDOT and FHWA officials said that the state will not have a problem meeting the maintenance-of-effort requirement by September 30, 2010. However, meeting such a requirement may be an issue in the future. According to NJDOT officials, the state's transportation trust fund will need additional revenue after June 30, 2011, because it is being depleted as more and more of the fund is used to service its bond debt related to highway infrastructure improvements. If the entire trust fund is used to pay debt service, FHWA officials are concerned that NJDOT might not be able to satisfy future maintenance-of-effort requirements unless the trust fund is renewed or another source of funding is developed. However, FHWA officials stated it is not likely that New Jersey will take action to raise the gas tax, the primary source of trust fund revenue, to improve the long-term viability of the fund.

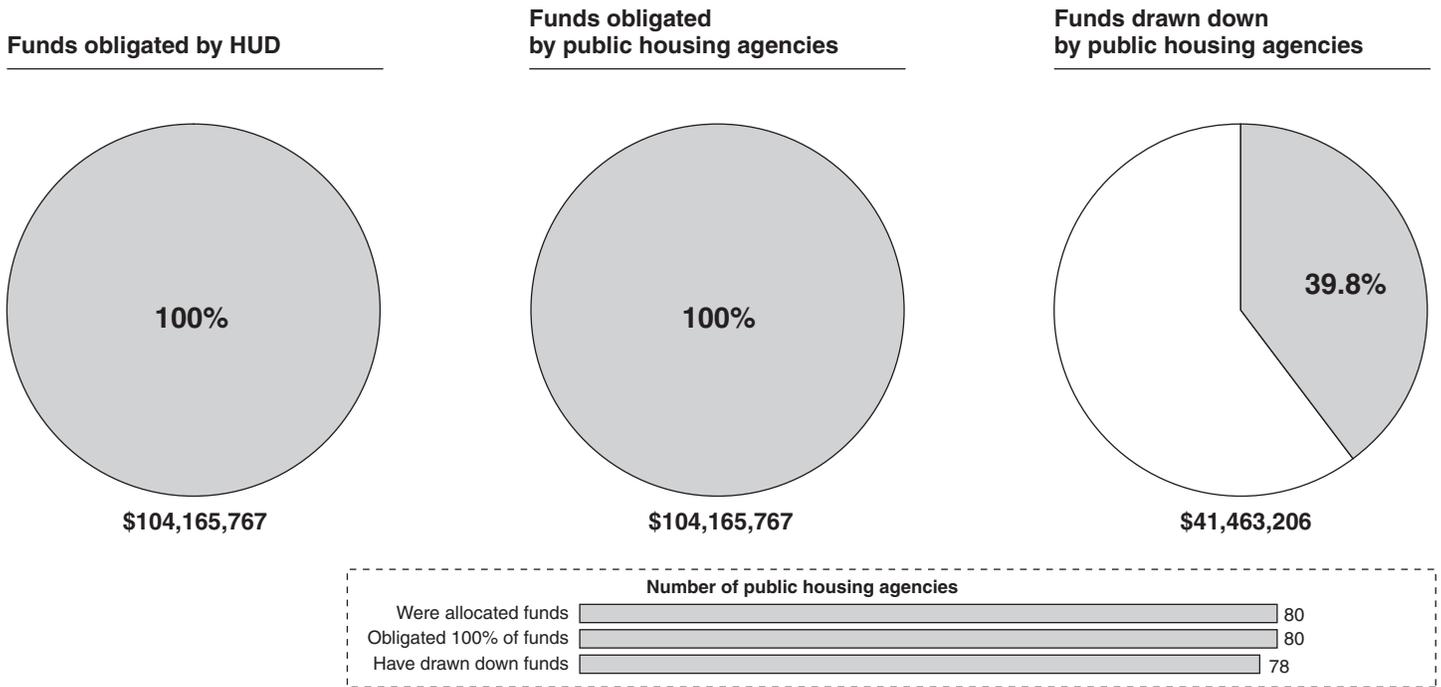
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<sup>12</sup>Recovery Act, div. A, title XII, § 1201(a).

## New Jersey's Public Housing Agencies Met the 1-Year Obligation Deadline with Little Impact to Regular Public Housing Capital Funds

New Jersey has 80 public housing agencies that received Recovery Act formula grant awards. In total, these public housing agencies received \$104 million in Public Housing Capital Fund formula grants to improve the physical condition of their properties; develop, finance, and modernize public housing developments; and improve management.<sup>13</sup> As required by the Recovery Act, all 80 public housing agencies obligated 100 percent of their funds by the March 17, 2010, deadline. As of May 1, 2010, 78 of these public housing agencies had drawn down a cumulative total of about \$41.5 million from the obligated Recovery Act funds (see fig. 2). The two housing agencies we visited had drawn down about \$423,000.

**Figure 2: Percentage of Public Housing Capital Funds Allocated by HUD that Have Been Obligated and Drawn Down in New Jersey, as of May 1, 2010**



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

<sup>13</sup>Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

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### Public Housing Agencies Identified Challenges in Meeting the Obligation Deadline

All of New Jersey's public housing agencies met the 1-year obligation deadline, which required public housing agencies to have 100 percent of their Recovery Act Public Housing Capital Formula Funds obligated by March 17, 2010. The Housing Authority of the City of Elizabeth obligated 100 percent of its Recovery Act funds, or \$4.3 million, by March 1, 2010, and the Housing Authority of Bergen County obligated 100 percent of its Recovery Act funds, or \$937,001, by March 10, 2010. Although both public housing agencies were able to meet the obligation deadline, they identified various challenges in doing so. For example, officials from the Housing Authority of the City of Elizabeth stated that bids for one of their major projects to replace heating, hot water, and boiler systems came in higher than anticipated and new bids were solicited. In addition, the procurement process, which officials stated can take up to 2 years from project design to construction, was compressed by 1 year in order to meet the obligation deadline. This condensed timeframe was exacerbated because the housing authority undertook twice the number of projects that it normally undertakes in a given year in half the time. An official from the Housing Authority of Bergen County stated that turnover at the Director of Finance position in the last year resulted in the loss of expertise at the management level and delayed the obligation of funds. The Housing Authority of Bergen County also hired a consulting firm to assess the physical condition of its public housing properties and identify needed capital improvements before selecting projects to receive Recovery Act funds. The consulting firm did not complete its work until October 2009, which delayed the selection of projects to be funded. Despite the challenges the housing agencies faced in quickly obligating their Recovery Act funds, officials from both housing agencies stated that these funds allowed them to undertake projects that otherwise would have been deferred or taken years to complete.

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### HUD Provided Technical Assistance to Ensure Housing Agencies Met the Obligation Deadline

Officials from the HUD field office provided ongoing communication and technical assistance to ensure that public housing agencies in New Jersey met the 1-year obligation deadline. According to these officials, e-mail reminders were sent to those housing agencies that were behind on their obligations, reminding them of the upcoming deadline. In addition, field office officials provided each of the public housing agencies with a grant compliance checklist obtained from HUD headquarters to monitor compliance with Recovery Act requirements and grant obligations and expenditures. HUD field office officials stated they conducted on-site

reviews for 28 public housing agencies identified by HUD headquarters. The on-site reviews included those public housing agencies characterized as troubled by HUD.<sup>14</sup>

Both public housing agencies we visited relied on technical assistance from the HUD field office to ensure that their Recovery Act funds were obligated by the 1-year deadline. Specifically, officials from both housing agencies told us they received assistance from the field office to ensure that their solicitations for bids contained all of the necessary information to meet Recovery Act manufacturing, wage, and workforce requirements. According to an official from the Housing Authority of Bergen County, HUD field office officials contacted them on a weekly basis to ensure that they met the March 17, 2010, obligation deadline. The official stated they will request further assistance from the HUD field office in the form of a technical file review once the housing agency begins to expend funds to ensure continued compliance with Recovery Act requirements.

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### The Administration of Regular Public Housing Funds Is on Track Compared to Previous Years

According to officials from the HUD field office, their ability and the ability of public housing agencies to administer the regular public housing capital funds has not been impacted by Recovery Act requirements.<sup>15</sup> According to HUD field office officials, the process used to administer the Recovery Act funds is the same as the process used to administer the regular public housing capital funds in terms of meeting federal requirements. Although the number of remote and on-site reviews increased significantly compared to prior years to ensure Recovery Act requirements were met, officials from the HUD field office stated that they had adequate resources and experienced staff to complete the additional monitoring and continue to administer the regular public housing capital funds.

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<sup>14</sup>HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of housing agencies' public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

<sup>15</sup>A public housing agency generally must obligate all Capital Fund Program assistance not later than 24 months after the date on which the funds become available to the public housing agency or the date on which the public housing agency accumulates adequate funds, and generally must spend all Capital Fund Program assistance not later than 4 years after the date on which funds become available to the public housing agency for obligation. 42 U.S.C. § 1437g(j).

Officials from both public housing agencies we visited stated that they have been able to administer their regular public housing capital funds despite additional reporting requirements and the condensed time frame for obligating Recovery Act funds.<sup>16</sup> Officials from the Housing Authority of the City of Elizabeth stated that the overall process for administering the Recovery Act funds was the same and that they pulled forward projects they already had in their 5-year Capital Plan, so they were able to implement them without compromising their ability to continue projects under the regular capital fund program. In addition, the housing agency has received fewer capital funds in recent years as compared to the past, so it has been able to obligate the funds fairly quickly. An official from the Housing Authority of Bergen County stated that the Recovery Act funds may have delayed the regular capital fund projects by 2 months, but at the time of our visit, the housing agency was in the process of soliciting bids for the four projects it plans to undertake with these funds. Officials from the housing agencies provided their rates of obligation for capital funds for fiscal years 2006 through 2009 based on the percentage of funds that were obligated within 1 year of receiving the funds. The rate of obligation for both housing authorities are on track for 2009 compared to previous years (see table 3).

**Table 3: Regular Public Housing Capital Fund 1-Year Obligation Rates, for Fiscal Years 2006 to 2009**

	Housing Authority of the City of Elizabeth	Housing Authority of Bergen County
2006	30%	54%
2007	63	30
2008	31	33
2009 <sup>a</sup>	42	30

Sources: Housing Authority of the City of Elizabeth and Housing Authority of Bergen County.

Note: The date at which public housing capital funds are received by the housing agencies varies from year to year. The obligation rates are based on the percentage of funds obligated within 1 year of receiving the funds.

<sup>a</sup>Obligation rates for fiscal year 2009 are as of February 28, 2010, for funds received on September 15, 2009.

Although officials from the HUD field office and both housing agencies stated that the implementation of their regular capital fund projects are on

<sup>16</sup>Officials from the Newark and Rahway Housing Authorities also stated that the administration of their regular public housing capital funds is on track.

track, ensuring compliance with Recovery Act requirements will require greater oversight once construction begins and reimbursements for expenditures of Recovery Act funds are incurred. As of May 1, 2010, almost 40 percent of Recovery Act funds had been drawn down by public housing agencies in the state. Continued monitoring and oversight will be important to ensure Recovery Act fund requirements are met as funds are expended and delays to regular capital fund projects do not occur.

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## CHRP Is Helping Cities Address Staffing Shortages in Their Police Departments, and Officials Face Few Challenges in Meeting Reporting Requirements

Eighteen law enforcement agencies in New Jersey received CHRP grants that totaled \$26.8 million. According to officials from the East Orange and Trenton Police Departments, fiscal conditions in their cities, along with lower-than-desired police officer levels, led them to apply for the CHRP grant to hire new officers. For example, officials in East Orange told us that their city lost police officers in the past few years due to attrition and the city was unable to replace these positions due to a \$13 million budget shortfall. Trenton Police Department officials also cited understaffing due to retirements and a budgetary shortfall as their reason for applying for the CHRP grant.

Despite the current fiscal conditions, officials from the East Orange and Trenton Police Departments are confident they can meet the CHRP grant's fourth-year retention requirement.<sup>17</sup> Officials from both departments anticipate multiple retirements over the next 3 years and believe that the officers hired through the CHRP grant can be used to meet their staffing needs and fill shortages left by these retirements. However, based on its review of the Governor's Proposed Fiscal Year 2011 Budget, officials in the Trenton Police Department expressed concern that the state's fiscal condition could result in layoffs in their police department for those officers supported by state and local funds. Specifically, Trenton Police Department officials told us that potential cuts in state aid for the City of Trenton could result in a \$6 to \$7 million cut in funding for the police department. Although the police department is concerned about potential cuts to its current staffing levels, Trenton Police Department officials reiterated that they are not concerned about meeting the CHRP staffing retention requirement four years from now because fiscal conditions in the state may eventually improve.

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<sup>17</sup>CHRP grants cover 100 percent of grantees' approved expenses and benefits associated with entry-level salaries for both newly hired and rehired full-time sworn officer positions for three years. When the grant term expires, grantees must retain all positions funded through CHRP for one additional year.

**CHRP Grant Helped Recipients Fill Needed Positions and Is Expected to Enhance Community Policing Efforts**

Officials from the East Orange and Trenton Police Departments told us that their departments are understaffed and that the CHRP grant allowed them to fill some of the vacant positions. Specifically, the East Orange Police Department received \$3.2 million to hire an additional 14 officers, while the Trenton Police Department received \$3.0 million to hire an additional 18 officers for the 3-year period. Officials from the East Orange Police Department stated they did not receive their initial request for 18 officers due to high demand for funding for the grant nationwide. Officials from the Trenton Police Department told us that they understood they did not receive their initial request for 21 officers because it exceeded the number of officers allowed under CHRP grant limits.<sup>18</sup> The table below summarizes the staffing needs at the East Orange and Trenton Police Departments prior to and after receiving the CHRP grant.

**Table 4: Projected Impact of CHRP Grant Funding on East Orange and Trenton Police Department Staffing Levels**

Police department	Desired number of officers	Number of officers before CHRP grant	CHRP grant award (number of officers and grant amount)	Officer total with CHRP grant addition
East Orange	300	278	14 (\$3.2 million)	292
Trenton	371	345	18 (\$3.0 million)	363

Source: East Orange and Trenton Police Department data as of February 1, 2010.

The East Orange and Trenton Police Departments have completed some hiring under the CHRP grant but still have positions that need to be filled. East Orange officials told us that they have hired 6 of their 14 officers, who started on March 1, 2010, and the officers are currently going through initial officer training. Officials expect to have the remaining 8 officers hired by the end of the city’s fiscal year of June 30, 2010, and are actively recruiting to fill these positions. As of April 1, 2010, East Orange obligated about \$1.4 million and expended about \$20,606 of their CHRP award. Trenton Police Department officials told us that as of March 1, 2010, they hired 16 of the 18 officers for which they received funding under the CHRP grant. These officers began on-the-job training on February 25, 2010, and reported for official duty on April 1, 2010. They expect to fill the remaining two positions in the near future. These two positions were initially filled, but due to an injury and a dismissal, the police department needs to recruit for these positions again. Officials told us as of April 1, 2010, the

<sup>18</sup>The CHRP grant provided a capping methodology that allowed local law enforcement agencies to request and have funded no more than 5 percent of their current sworn officer workforce up to a 50-officer maximum.

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Trenton Police Department obligated all \$3.0 million of its CHRP funds, and \$352,289 was expended.

In addition to increasing staffing levels, officials expect that the CHRP grant will have a positive impact on their community policing efforts. East Orange Police Department officials told us that the city experienced a 76 percent decrease in crime over the last 3 years and believes the CHRP grant will allow them to have sufficient police presence to maintain this trend. Trenton Police Department officials told us the CHRP grant will allow the department to enhance their community policing efforts beyond core functions such as basic car patrols and responding to emergencies. These enhanced policing efforts include implementing foot and bike patrols to target high-crime areas, having officers attend community events to strengthen neighborhood relationships, and generally increasing police presence, which they believe will deter criminals and reduce overall crime.

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### Recovery Act Recipient Reporting Requirements Posed Few Challenges

East Orange and Trenton Police Department officials told us despite a few early technical issues, Recovery Act recipient reporting has been fairly straightforward, and they do not anticipate any major issues in the future. East Orange Police Department officials told us that they had some initial difficulties registering as a new recipient in [www.federalreporting.gov](http://www.federalreporting.gov). East Orange Police Department officials stated that reporting will take on a larger role once their full allotment of officers is hired because they will have to account for all of their officers under the CHRP grant, but they do not envision major difficulties in meeting the reporting requirements. Similarly, Trenton Police Department officials told us that reporting on [federalreporting.gov](http://federalreporting.gov) has not posed major challenges. However, obtaining the required data to report this information can be challenging because the police department needs to coordinate with city hall to obtain information to satisfy various reporting deadlines. Specifically, the police department relies on city hall to obtain the payroll information it needs to calculate CHRP grant FTEs in order to submit this information to [federalreporting.gov](http://federalreporting.gov) within 10 days of the end of the quarter. In addition, the police department relies on city hall to submit federal financial reports on its CHRP grants to the U.S. Department of Justice within 30 days of the end of each quarter. According to Trenton Police Department officials, the different reporting deadlines and the reliance on city hall to obtain necessary data, makes it difficult to accurately report on Recovery Act requirements within 10 days. Thus, officials recommended extending the reporting deadline from 10 days to 15 days to allow more time to obtain the required information.

## Although Recovery Act Funds Helped Stabilize New Jersey's Budget, the State Faces a Severe Budget Shortfall That May Affect Localities

New Jersey received approximately \$5 billion in Recovery Act funds, which the state used, in part, to help stabilize its fiscal year 2010 budget.<sup>19</sup> However, despite the Recovery Act funds, New Jersey is facing a \$2.2 billion shortfall in its current-year budget due to lower-than-projected tax revenues.<sup>20</sup> As a result, in February 2010, the Governor of New Jersey signed an executive order declaring a fiscal state of emergency to address the estimated \$2.2 billion budget gap that remains for fiscal year 2010.<sup>21</sup> Under this emergency initiative, the state took several actions to close the budget gap, including freezing state spending, reducing aid to state schools and school districts, re-examining employee salary structures, and monitoring the collection of revenues and expenditures. However, New Jersey is currently working to address a projected \$10.7 billion budget shortfall for fiscal year 2011.

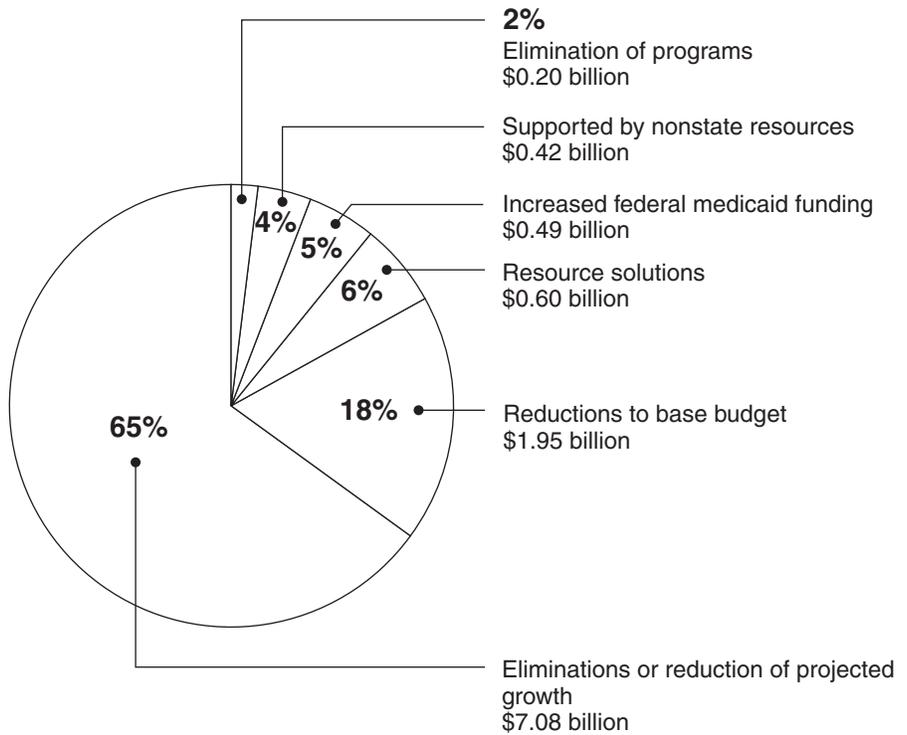
While Recovery Act funds had a significant impact on the fiscal year 2010 budget, NJOMB officials do not believe that the impact will be the same for fiscal year 2011. For example, since the state disbursed all of the \$1.2 billion in SFSF funds it received in fiscal year 2010, total aid to New Jersey's school districts (approximately 590 school districts in 21 counties) is expected to decrease by approximately \$820 million even though the fiscal year 2011 spending plan dedicates almost \$70 million in additional state funding to education than in the previous year. To address the projected budget shortfall for fiscal year 2011, the Governor's budget proposes to cut spending across hundreds of state programs and operations, reducing fiscal year 2011 state-supported spending by 5.3 percent. The Governor's proposed budget also makes reductions to projected growth and assumes the continuation of increased federal Medicaid funding under the Recovery Act. Figure 3 summarizes the Governor's proposal to close the projected \$10.7 billion shortfall in 2011.

<sup>19</sup>We have discussed the Recovery Act's impact on New Jersey's budget in previous reports. See GAO, *Recovery Act: States' and Localities' Current and Planned Uses of Funds While Facing Stresses (Appendixes)*, [GAO-09-830SP](#) (Washington, D.C.: July 8, 2009) and *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Appendixes)*, [GAO-09-1017SP](#) (Washington, D.C.: Sept. 23, 2009).

<sup>20</sup>New Jersey's budget fiscal cycle is July 1st through June 30th.

<sup>21</sup>42 N.J. Reg. 660(b) (March 15, 2010) (Executive Order No. 14).

**Figure 3: Proposed Actions to Close the Fiscal Year 2011 Budget Gap**



Source: Fiscal year 2011 state of New Jersey, Budget in Brief, March 16, 2010.

### New Jersey’s Fiscal Condition Impacts Localities

The fiscal condition of the state directly impacts the fiscal condition of localities throughout New Jersey. For example, the Governor’s fiscal year 2011 budget proposes cutting the funds it provides to localities through its special municipal aid. Furthermore, officials in some of the localities we visited stated that they expect reductions in state aid as a result of the state’s fiscal condition. For example, officials in Newark told us that in fiscal year 2009, they received \$45 million in special municipal aid that they will not receive in fiscal year 2010. Concerned about the impact of the state’s budget on the city’s budget, officials noted that the city administration is developing next-step scenarios, strategies, and solutions to the city’s budget challenges. To date, officials said that there have not been any cuts in Newark services. Burlington County officials also stated that the number and amount of grants that the county typically receives from the state has decreased considerably. Furthermore, officials stated that their budget has declined due to decreases in revenue collected, including lower amounts of fees collected for county services.

**New Jersey Localities Primarily Used Recovery Act Funds for Nonrecurring Projects and Maintaining Services**

Despite the budgetary challenges faced by the localities we visited, officials in these localities told us that Recovery Act funds did not help them stabilize their budgets because they generally used Recovery Act funds for nonrecurring projects and to maintain services. The following table summarizes characteristics of the state of New Jersey and the localities we visited.

**Table 5: Statistical Data of the State of New Jersey and Select Localities**

Locality	Population	Government type	Unemployment rate (percent)	FY 2009 budget (in millions)	Total Recovery Act funds (in millions) <sup>a</sup>
State of New Jersey	8,707,739	State	10.2	\$30,000 <sup>b</sup>	\$5,000
City of Newark	278,980	City	15.5	677	62
County of Bergen	895,250	County	8.5	480	16
County of Burlington	446,108	County	9.6	224	6
County of Cape May	96,091	County	16.3	145	1

Source: GAO analysis of U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, and state budget data.

Notes: City population data are from the latest available estimate, July 1, 2008. State and county population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

<sup>a</sup>Recovery Act fund totals do not include suballocated transportation funds administered by the counties.

<sup>b</sup>The New Jersey state budget is for fiscal year 2010.

**City of Newark Continues to Compete for and Receive Recovery Act Funds**

Officials in the Mayor’s office stated that the City of Newark and its community partners have received almost \$360 million in Recovery Act funds, which exceeded their original goal of \$150 million. Specifically, Newark received \$62 million and its community partners received \$297 million.<sup>22</sup> Of the \$62 million, \$46.2 million was received through Recovery Act competitive grants. According to officials, Newark has received nearly 26 percent of the competitive Recovery Act grant funds for which it has applied. For example, a consortium, of which the city was the lead applicant, received about \$20.8 million for a Neighborhood Stabilization Program 2 grant that provided funding for the acquisition and redevelopment of foreclosed and abandoned properties. Officials said that Newark works closely with its community partners to maximize the use of

<sup>22</sup>Community partners are nonprofits, educational institutions, faith-based, and other community organizations, as well as other government and quasi-government organizations.

Recovery Act funds. For example, the consortium for the stabilization grant involved 16 consortium members, including Newark. If the city becomes aware of a Recovery Act grant for which a community partner could apply, it notifies them about the grant and offers assistance in putting the application together. Officials scan the Internet daily for grant opportunities, and the city is building a repository of grant applications that it posts quarterly on the city's Web site.

Officials said that Newark included five nonrecurring Recovery Act projects in its fiscal year 2009 budget, totaling \$11.6 million. For example, Newark included Recovery Act funding in its 2009 budget for WIA services for adults, dislocated workers, and youth. These workforce services provide adult employment and job-training activities to individuals over the age of 18 and workers who have been laid off or notified that they will be laid off. Newark is also using Recovery Act funds to complete projects that it may not have been able to complete absent the funds. For example, Newark is using its Energy Efficiency and Conservation Block Grant to create a Climate Prosperity Plan to strategically guide the city's carbon reduction efforts, retrofit municipal buildings, install energy-efficient building management technologies, support green neighborhood approaches, and provide technical assistance to connect residents and businesses to available energy efficiency programs.

### Recovery Act Funds Help the County of Bergen Provide Vital Services for Its Citizens

According to Bergen County officials, the county has received approximately \$16 million in Recovery Act funds. For example, the Bergen County Department of Public Works received a \$7.4 million Energy Efficiency and Conservation Block Grant to implement various energy projects throughout the county. In addition, the Bergen County Division of Community Development received a \$4.3 million Homeless Prevention and Rapid Rehousing Program grant to provide financial assistance and housing relocation and stabilization services to low-income citizens. Officials stated that without the Recovery Act funds it would have taken 5 to 7 years to complete some of the projects. The Bergen County Department of Human Services used about \$30,000 in Recovery Act funds to train and supervise 100 volunteers to serve on crisis-response teams for domestic violence victims at municipal police departments throughout the county. The Recovery Act funds initially provided funding for the program through June 30, 2010. According to a department official, the department was recently notified that it will receive additional Recovery Act funds, along with other federal funds, to support the program for the remainder of the year.

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County of Burlington Used Its Recovery Act Funds to Maintain a Variety of Services

Burlington County received approximately \$6 million from the federal and state governments in Recovery Act funds for 14 programs. Those funds helped Burlington County provide a number of programs and services to citizens, including home-delivered meals for the elderly; homelessness prevention; services for victims of domestic violence; energy-efficiency and conservation projects; wastewater management planning; and workforce training for youth, adult, and dislocated workers. Officials stated that the Recovery Act funds allowed the county to complete projects that it would not have otherwise been able to complete absent the funds.

According to a Burlington County official, once the Recovery Act funds are depleted, the county will discontinue several of the programs, and some jobs funded through the Recovery Act may be eliminated. The official noted, however, that the Recovery Act funds did allow the county to retain nine jobs that were not created by the Recovery Act. The official went on to say that the county's 2010-2011 budget will determine whether employees holding these positions will be retained. One Burlington County official remarked that the number of retirements due to normal attrition may allow the county to retain some employees, but as of March 2010, no retirements had been announced.

County of Cape May Used Recovery Act Funds to Support Workforce Stabilization

Cape May County received about \$1 million in total Recovery Act funds, which it used for the provision of homebound and congregate meals, development of a water quality management plan, workforce projects, and job retention.<sup>23</sup> For example, funding for the county prosecutor's Gangs, Guns, and Narcotics Task Force helped to stabilize salaries for three full-time employees and to purchase needed equipment. The prosecutor's office has received federal funding for the last 6 months of 2009 and expects Recovery Act funds for the first 6 months of 2010 to cover the salaries. According to Cape May County officials, the county also received \$884,841 to support WIA summer youth employment opportunities. Tourism is the primary industry for Cape May County but, as officials explained, receiving the funds during peak tourist season made it difficult to create jobs under the summer youth program due to competition with the prevailing wages offered by other employers in the county. Consequently, the county spent only \$182,634 of the funds received,

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<sup>23</sup>Congregate meals, or group meals, are usually provided in locations such as senior centers, schools, or churches, whereas homebound meals are provided to older persons who are homebound due to illness, an incapacitating disability, or isolation.

resulting in the seasonal employment of 40 young adults between the ages of 16 and 24.<sup>24</sup> Given the relatively small amount spent and the general stability of the Cape May economy, officials asserted that the grant could have been easier to implement in nonpeak tourist months or better used in other localities.

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## New Jersey's Accountability Community Plays an Active Role in Monitoring the State's Recovery Act Funds

The New Jersey Recovery Accountability Task Force, co-chaired by the Governor's Deputy Chief of Staff and the State Comptroller, has primary responsibility for oversight of the state's Recovery Act funds. In addition, the Office of the State Auditor reviews internal controls over Recovery Act funds as part of its planned audits of state agencies. Ongoing oversight activities by these entities over Recovery Act funds are summarized below.<sup>25</sup>

- *Recovery Accountability Task Force.* The task force plays a significant managerial role in the oversight of Recovery Act funds and is responsible for monitoring the distribution of Recovery Act funds in the state and promoting the effective and efficient use of those funds. The task force continues to receive updates from state agencies that are receiving Recovery Act funds during its regularly scheduled meetings to ensure the agencies are disbursing funds in an efficient and transparent manner and in accordance with the goals of the Recovery Act. The task force is also considering taking on a more proactive role in directing state agencies that have their own audit departments to conduct audits of their Recovery Act funds. Other issues discussed in the task force meetings include findings of other agency audits, federal recipient reporting requirements, and

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<sup>24</sup>According to NJOMB and Atlantic County officials, there is an agreement in place that states any funding left over from Cape May's summer program will be pooled for both counties to use until the end of the Recovery Act funding period on June 30, 2011.

<sup>25</sup>See GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: Apr. 23, 2009) for additional information about agencies responsible for the state's Recovery Act oversight efforts.

weaknesses identified in the Single Audit report, coordinated by NJOMB.<sup>26,27</sup>

- *Office of the State Comptroller.* In addition to the State Comptroller serving as co-chair on the Recovery Accountability Task Force, the New Jersey Office of the State Comptroller conducts its own audits of Recovery Act funds in coordination with the Office of the State Auditor. For example, the Comptroller's Office issued a report of its audit of WIA Youth Program Recovery Act funds received by the Department of Labor and Workforce Development for its summer youth employment program on April 29, 2010. The audit focused on the administration and monitoring of both the fiscal and programmatic components of the program, including compliance with applicable federal, State, and department policies related to the program; the department's monitoring and oversight of the program; and the achievement of federal and State program goals and the measurement of program outcomes. The audit found, among other things, that although the program attained its minimum objectives, a lack of detailed guidance at the federal and State levels resulted in significant variations in the design and implementation of the program across the state, such as differences in assessing work readiness skills, which will make it difficult to assess such outcomes as the level of work readiness achieved in the state. The state also did not recruit private sector employers to participate in the program, limiting the range of work experiences for participants and did not accurately report FTEs during the first round of required recipient reports.<sup>28</sup> The Comptroller's Office made 7 recommendations to improve the department's oversight and monitoring of the program. The department stated that it

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<sup>26</sup>The Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507), requires that each state, local government, or nonprofit organization that expends at least a certain amount per year in federal awards—currently set at \$500,000 by OMB—must have a Single Audit conducted for that year subject to applicable requirements, which are generally set out in OMB Circular No. A-133, Audits of States, Local Governments and Non-profit Organizations (June 27, 2003). If an entity expends federal awards under only one federal program and when federal laws, regulations or grant agreements do not require a financial statement audit of the entity, the entity may elect to have an audit of that program.

<sup>27</sup>New Jersey's Single Audit report for fiscal year 2009 was due on March 31, 2010. However, NJOMB sent a letter to the Department of Health and Human Services on March 2, 2010, requesting an extension until April 30, 2010. NJOMB submitted the audit report to the Federal Audit Clearinghouse on April 27, 2010.

<sup>28</sup>The Office of the Comptroller examined FTE calculations for the six highest-funded Workforce Investment Boards in the state.

would take the recommendations into consideration in the event that the program is funded again in the future.

- *Office of the State Auditor.* The Office of the State Auditor issued a report on its audit of the Department of Community Affairs' Recovery Act Weatherization Assistance Program on March 26, 2010.<sup>29</sup> The audit focused on the eligibility process at the local and community-based agencies that administer the program to determine whether adequate controls were in place to confirm the eligibility of recipients scheduled to receive weatherization assistance. The audit found that the controls to determine eligibility were not adequate because of a lack of supporting documentation for household income and size, as well as the lack of Social Security numbers maintained by the weatherization agencies. As a result, ineligible program applicants were determined to be eligible and could receive weatherization services. The Office of the State Auditor recommended that the Department of Community Affairs update its weatherization bulletins to address the determination of annual income on a consistent basis and to require the inclusion of Social Security numbers for applicants and all household members to minimize the potential for fraud and program abuse. The Office of the State Auditor also recommended that the Department of Community Affairs strengthen controls and edit checks in the software system used by weatherization agencies to determine eligibility, monitor the progress of applications, and track expenditures. According to the State Auditor, deficiencies identified in the Weatherization Assistance Program were communicated to the Department of Community Affairs as the audit was under way and the department has already begun to implement the recommendations. The department stated that based on the recommendations, it will now require Social Security numbers, update and clarify department policies, and verify applicant wages. The Office of the State Auditor will continue to monitor the department's progress in implementing the recommendations and plans to further audit the administration of the program, as well as some of the homes that have already been weatherized in the coming months.

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<sup>29</sup>New Jersey Office of Legislative Services, Office of the State Auditor, Department of Community Affairs American Recovery and Reinvestment Act Weatherization Assistance Program Eligibility, April 1, 2009 to December 4, 2009 (Trenton, N.J., 2010).

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## State Comments on This Summary

We provided the Governor of New Jersey with a draft of this appendix on May 6, 2010. On behalf of and in concert with the Governor's Deputy Chief of Staff, who serves as co-chair for the Governor's Recovery Accountability Task Force, the Governor's Policy Advisor for Recovery Act matters responded for the Governor on May 11, 2010. The official provided technical comments that were incorporated, as appropriate.

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## GAO Contacts

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## Staff Acknowledgments

In addition to the contacts named above, Diana Glod, Assistant Director; Nancy Lueke, analyst-in-charge; Kisha Clark, Alexander Lawrence Jr.; Tarunkant Mithani; and Nitin Rao made major contributions to this report.

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# Appendix XIII: New York

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## Overview

This appendix summarizes GAO's work on the sixth bimonthly review of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in New York. The full report on all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery/>.

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## What We Did

We reviewed seven programs funded by the Recovery Act—the Clean Water and Drinking Water State Revolving Funds (SRF), the Edward Byrne Memorial Justice Assistance Grants (JAG), the Highway Infrastructure Investment Program, the Weatherization Assistance Program, and three education programs: (1) the U.S. Department of Education (Education) State Fiscal Stabilization Fund (SFSF); (2) Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA); and (3) the Individuals with Disabilities Education Act, as amended (IDEA), Part B. These programs were selected primarily because they are receiving significant amounts of Recovery Act funds, recently began disbursing funds to states, or both. We focused on how funds were being used, how safeguards were being implemented, and how results were being assessed. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

Our work in New York also included understanding the state's fiscal condition and obtaining an update on two of the localities we visited for our December 2009 report. We visited New York City because it is the largest city in the state and its unemployment rate is above the state's rate.<sup>2</sup> We also visited Westchester County because it is a suburban county with an unemployment rate below the state's rate. Finally, we reviewed the work being done by the accountability community to oversee the use of Recovery Act funds.

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## What We Found

Funds from the programs we reviewed are helping New York state and local governments stabilize their budgets while also stimulating infrastructure development and expanding existing programs. The following summarizes findings for the areas we examined.

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

<sup>2</sup>The U.S. Department of Labor, Bureau of Labor Statistics (BLS) reported an 8.8 percent unemployment rate for New York state for March 2010. This rate is preliminary and has not been seasonally adjusted.

- **Clean Water and Drinking Water SRFs.** New York received about \$436.9 million in Recovery Act funding for the Clean Water SRF, more than any other state, and about \$86.8 million in Recovery Act funding for the Drinking Water SRF. Both SRFs relied primarily on project lists developed before the Recovery Act was passed to identify eligible projects. New York took innovative approaches to meeting Recovery Act requirements, such as partnering with another agency to identify new and existing green elements in clean water projects and developing a new grant program to meet the green reserve requirement.<sup>3</sup> We visited three SRF projects—an ecological restoration and improved stormwater management project in Brooklyn, a wastewater treatment plant upgrade project in Westchester County, and a new drinking water system project in Poestenkill. All three projects we visited reported that their final contract awards were lower than official cost estimates.
- **Highway Infrastructure Investment Program.** The U.S. Department of Transportation’s Federal Highway Administration (FHWA) apportioned \$1.12 billion in Recovery Act funds to New York in March 2009 for highway infrastructure and other eligible projects.<sup>4</sup> The federal government obligated the state’s full apportionment by the 1-year deadline of March 2, 2010. The New York State Department of Transportation (NYSDOT) reports that the majority of Highway Recovery Act funds are going towards the rehabilitation and repair of highways and bridges, as well as bridge replacement and highway reconstruction projects. As of May 3, 2010, \$238 million had been reimbursed by the federal government. NYSDOT officials report that bids for state projects were 13 percent lower than the state’s original estimated costs of the projects.
- **JAG Program.** The U.S. Department of Justice’s Bureau of Justice Assistance (BJA) awarded \$110.6 million in Recovery Act JAG funding to New York. On the basis of a statutory formula, BJA awarded about 60 percent to New York state (\$67.3 million), part of which (\$43.8 million) was passed on to localities. According to officials, the bulk of

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<sup>3</sup>The Recovery Act required states to reserve at least 20 percent of their funds for projects that address green infrastructure, water or energy efficiency, or other environmentally innovative activities.

<sup>4</sup>This does not include obligations associated with over \$175 million of apportioned funds that was transferred from FHWA to the Federal Transit Administration (FTA) for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

the state funds have been obligated to implement recently enacted drug law reforms and continue recidivism pilot programs.<sup>5</sup> BJA also awarded \$43.3 million in Recovery Act JAG funds directly to eligible localities in New York.<sup>6</sup> We visited two localities—New York City and Utica—that received such funds. While, according to officials, New York City is using nearly its entire direct local Recovery Act JAG award to retain personnel—such as New York City fire department and corrections officer positions—Utica is using most of its direct local Recovery Act JAG funds to purchase law enforcement equipment.

- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) allocated \$394.7 million in Recovery Act funds to New York in March 2009 for the Weatherization Assistance Program. Through March 31, 2010, New York had weatherized 1,309 units—2.9 percent of its goal of 45,000 units. In part, this low completion rate reflects the emphasis in the state plan on weatherizing multifamily projects, which account for over half of this goal. Multifamily projects typically take longer to complete than one- to four-family homes. Yet state officials were confident that they would not only meet but exceed their goal. They reported that work on an additional 10,546 units was currently under way and that energy audits—which are required before weatherization can begin—of an additional 14,008 units had been completed. Once these 24,554 units are completed, New York will have completed 57.5 percent of the units needed to meet its goal.
- **Education programs.** Education allocated \$549 million in SFSF government services funds to New York, most of which the state appropriated to education programs that were facing cuts prior to the enactment of the Recovery Act. Although the state has disbursed only 15 percent of the funds (partly because of administrative delays), a senior state budget official said that she believes the SFSF government services funds will be obligated by the federal deadline of September 30, 2011, with disbursements also occurring by federal deadlines. The New York State Education Department is undertaking new monitoring of SFSF funds and some additional monitoring of Recovery Act ESEA Title I, Part A and IDEA, Part B funds.

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<sup>5</sup>Recidivism is a tendency to relapse into a previous condition or mode of behavior; especially relapse into criminal behavior.

<sup>6</sup>These are known as direct local awards.

- **State and localities' use of Recovery Act funds.** New York's persistent fiscal challenges have led to a projected budget gap of \$9.2 billion for fiscal year 2010-2011. The Governor's proposed 2010-2011 Executive Budget, as amended and supplemented by additional gap-closing recommendations, closes this deficit, but the state's legislature has not approved a budget. Officials reported that the fiscal stability of the localities we revisited have been positively affected by Recovery Act funds. However, localities are concerned about cuts in state aid and future budget gaps, especially after the Recovery Act ends.
- **Accountability.** The Stimulus Oversight Panel,<sup>7</sup> Office of the State Comptroller (OSC), and Economic Recovery and Reinvestment Cabinet, which is headed by the Governor's office, are primarily responsible for statewide oversight of Recovery Act funds.<sup>8</sup> In addition, an estimated 90 percent to 95 percent of the state's Recovery Act funding will be reviewed in the state's Single Audit.<sup>9</sup> The most recent Single Audit, which was issued November 25, 2009, for the fiscal year ending March 31, 2009, found material weaknesses in internal

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<sup>7</sup>In July 2009, the Governor created a Stimulus Oversight Panel chaired by the New York State Inspector General (NYSIG) with the state Division of Human Rights Commissioner, Metropolitan Transportation Authority Inspector General (IG), and Medicaid IG as members. The panel meets on a biweekly basis to examine the use of Recovery Act funds by each of the 22 New York state agencies designated to receive them, to develop coordination with other state and federal law enforcement partners responsible for the oversight of Recovery Act funds, to discuss the progress of investigations whose allegations were received through the Stimulus Complaint hotline, and to initiate proactive reviews when deemed necessary.

<sup>8</sup>State program departments and agencies also have internal audit departments that review Recovery Act funds and localities and transit or housing authorities play a role in managing some Recovery Act funds that do not pass through state offices.

<sup>9</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

controls for two Recovery Act programs.<sup>10</sup> These involved 238 duplicate payments totaling \$5,950 in the Recovery Act Unemployment Insurance program and inadequate identification of Recovery Act funds as separate from regular program funds for the Medical Assistance Program (Medicaid). The state implemented a manual process to prevent future duplicate payments and took steps to improve identification of Recovery Act funds for Medicaid. According to New York State Inspector General (NYSIG) officials, NYSIG also has ongoing investigations related to complaints received through the Stimulus Complaint hotline.

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## Clean and Drinking Water SRFs in New York Used Innovative Approaches to Meet Recovery Act Requirements

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### New York Used Existing Plans to Identify “Shovel-Ready” Projects and Met the 1-year Deadline for Having Funds under Contract

New York received about \$436.9 million in Recovery Act funding for its Clean Water SRF, more than any other state.<sup>11</sup> The Clean Water SRF program is managed jointly by the New York State Department of Environmental Conservation (NYSDEC) and the New York State Environmental Facilities Corporation (NYSEFC). New York City received an allocation of \$219.5 million—or over half—of the total state funding for clean water. Officials reported that New York City has a large need for clean water funds and has annual capital construction costs of over \$2

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<sup>10</sup>A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

<sup>11</sup>This amount includes about \$4.4 million in Clean Water Act (CWA) Section 604(b) Water Quality Management Planning Grants. Section 604(b) of the CWA provides for the reservation of 1 percent of each state's Clean Water SRF allotment (or \$100,000, if that is greater) each fiscal year to carry out planning under Sections 205(j) and 303(e) of the CWA. New York uses 604(b) grants to fund regional comprehensive water quality management planning activities. According to New York officials, the 604(b) program is administered separate from the SRF program by NYSDEC.

billion. New York state also received about \$86.8 million in Recovery Act funding for its Drinking Water SRF. The Drinking Water SRF is managed jointly by the New York State Department of Health (NYSDOH) and NYSEFC. Both SRF programs relied primarily on their 2009 Intended Use Plans, which were developed before the passage of the Recovery Act and are developed annually as part of the base SRF programs, to select projects that were “shovel ready.” New York awarded Recovery Act funds to 80 clean water projects and 30 drinking water projects, and met the deadline to have 100 percent of its Recovery Act funds awarded to projects that were under contract by February 17, 2010. These projects range from a clean water project to construct three sludge transportation vessels serving New York City’s water pollution control plants, which was awarded \$65.5 million in Recovery Act funds, to a drinking water project in the Town of Schodack, New York, which was awarded \$812,000 in Recovery Act funds to interconnect two water districts, replace water pipes, and improve a pump station.

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### New York Used Innovative Approaches to Meet the Green Reserve Requirement

The Recovery Act required states to reserve at least 20 percent of their funds for projects that address green infrastructure, water or energy efficiency, or other environmentally innovative activities. New York state’s SRFs took two innovative approaches to meet the green reserve requirement:

- (1) NYSEFC partnered with the New York State Energy Research and Development Authority (NYSERDA) to identify new and existing green elements in clean water projects, such as installing energy-efficient pumping motors and lighting where appropriate. NYSERDA conducted project-by-project energy audits to identify green project elements, both within existing project plans and as potential project improvements. In total, NYSERDA identified \$91 million in energy efficiency improvements that were incorporated into Recovery Act projects.
- (2) New York used a portion of its Recovery Act funds to create a new grant program called the Green Innovative Grant Program (GIGP). NYSEFC officials reported that GIGP was created to identify projects with a green focus and to assist in meeting the green reserve requirement. Projects awarded GIGP funds include green roofs, permeable pavement, rain harvesting, and progressive wastewater treatment processes. GIGP funded 35 clean water projects with \$38.2 million in Recovery Act funds, including 16 energy-efficiency projects; 13 green infrastructure projects, such as water harvesting and reuse

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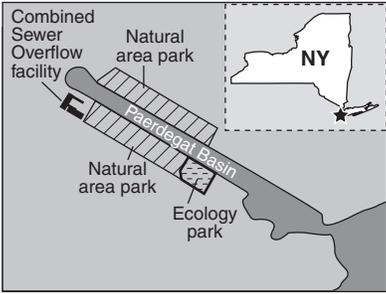
programs or wet weather management systems projects; 4 environmental innovation projects; and 2 water-efficiency projects. GIGP funded 14 drinking water projects with \$6.1 million of Recovery Act funds, including 7 water meter projects, 3 water-efficiency projects, and 4 energy-efficiency projects.

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**Officials Reported That Projects Will Benefit the Community; Also, Contract Awards on Some Recovery Act Projects Have Been Lower Than Official Cost Estimates**

We visited three (two Clean Water and one Drinking Water) SRF projects funded by the Recovery Act (see fig. 1).

Figure 1: Profile of Recovery Act Clean Water SRF and Drinking Water SRF Projects Visited by GAO

	Clean water		Drinking water
			
<b>Location</b>	Paerdegat Basin, Brooklyn, NY	Mamaroneck, NY	Town of Poestenkill, NY
<b>Description</b>	<ul style="list-style-type: none"> <li>• Ecological restoration of land adjacent to a Combined Sewer Overflow facility</li> <li>• Creation of natural area and ecology parks with walking trails and viewing platforms</li> </ul>	<ul style="list-style-type: none"> <li>• Biological nutrient removal upgrades to the Mamaroneck Wastewater Treatment Plant in Westchester County</li> </ul>	<ul style="list-style-type: none"> <li>• New drinking water system to supply 553 residences, an elementary school, and several businesses</li> <li>• Reduce current reliance on private wells (primarily residential), some of which are contaminated.</li> </ul>
<b>Total Recovery Act funding/ total cost</b>	\$14.6 million/ \$14.6 million	\$24.4 million/ \$55.4 million <sup>a</sup>	\$4.8 million/ \$9.5 million
<b>Total Recovery Act Green Reserve funding</b>	\$14.6 million	\$2.9 million	None
<b>Reported impact of project</b>	<ul style="list-style-type: none"> <li>• Restoring wetlands, naturally filtering stormwater runoff, and providing a community amenity</li> <li>• Creating an estimated 57.5 jobs a year during construction, and 3 jobs after completion to maintain the park</li> </ul>	<ul style="list-style-type: none"> <li>• Reducing the amount of nitrogen the plant discharges in the Long Island Sound</li> </ul>	<ul style="list-style-type: none"> <li>• Providing safe drinking water and promoting local business development</li> <li>• Generating an estimated 30 full time equivalent jobs</li> </ul>

Sources: GAO analysis; Town of Poestenkill (street sign photograph); Map Resources (NY map); and GAO (Mamaroneck Wastewater Treatment Plant).

<sup>a</sup>The total project was originally estimated to cost \$55.4 million. Of this, the municipality was to contribute \$400,000 for non-SRF-eligible project components and the remainder was financed through a \$55 million bond that was issued for the project before the contract was awarded. However, the award was below the estimate at \$45.9 million. As a result, the \$55.4 million now includes a \$9.1 million contingency, which is funded by base SRF funds, to be used in the event of cost overruns if needed.

Officials at each of the projects we visited reported community benefits from the project and noted benefits from having the project funded through the Recovery Act. For example, officials at the Paerdegat Basin project reported that it would not have been funded without Recovery Act funds. With Recovery Act funds, the project was not only able to proceed, but project planners were also able to increase the size of the project and add green components, such as porous pavement. This project is considered entirely green infrastructure, since it involves coastal habitat restoration and infrastructure to improve stormwater management. In the

town of Poestenkill, where we visited a drinking water project, a local official stated the additional incentive of the Recovery Act helped focus the project stakeholders to move the long-planned project ahead. All three of the projects we visited had final bids that came in lower than the official cost estimates. Subsequently, the lower than expected contract awards allowed NYSEFC to redistribute Recovery Act funds to other projects. For example, savings in New York City allowed NYSEFC to devote Recovery Act funds to projects involving upgrades and repairs for four water pollution control plants serving communities in Queens, Brooklyn, and Staten Island.

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**Internal Audit  
Departments Have Issued  
Findings on Recipient  
Reporting and NYSEFC is  
Hiring a Contractor to  
Provide Recovery Act  
Compliance and  
Monitoring Assistance**

As requested by the state's Economic Recovery and Reinvestment Cabinet, both NYSDEC and NYSDOH have issued internal audit reports related to the recipient reporting process for the SRFs.<sup>12</sup> The NYSDOH internal audit of recipient reporting recommended that NYSDOH (1) rework its process to ensure timely collection and reporting of all data; (2) implement the planned change to separate the data collection and review functions; (3) finalize the draft written procedures; and (4) ensure the procedures are complete, clear, and updated as necessary. NYSDOH officials report that they have fully implemented these recommendations and established a process for timely collection of reporting data, including a formal tracking system. However, NYSDOH reported that even with multiple follow-ups, a few recipients were late in reporting and NYSDOH withheld reimbursement as a means of enticing compliance. A NYSDOH Internal Audit official indicated she will continue to monitor the Drinking Water SRF Recovery Act quarterly recipient reports, with an emphasis on the expenditure and employment information. The audit of NYSDEC's Recovery Act recipient reporting process contained similar recommendations—to review and compare reported data with sources to verify the data, to develop written policies and procedures for recipient reporting data quality assurance plans, and to periodically review and update the risk assessments prepared relative to recipient reporting. NYSDEC developed a corrective action plan in response to these recommendations. According to a NYSDEC official, NYSDEC does not have any other internal audits of the Recovery Act SRF funds planned or under way.

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<sup>12</sup>NYSEFC, which helps administer both the Clean Water and Drinking Water SRFs, does not have an internal audit department.

NYSEFC officials reported that NYSEFC issued a Request for Proposals (RFP) on March 15, 2010, to hire a firm to provide compliance assistance and monitoring of Recovery Act recipients. According to a senior NYSEFC official and our review of the RFP, the selected firm's duties will include bi-monthly project site visits, inspections of project compliance with Recovery Act requirements, and reporting any allegations or suspicions of waste, fraud, or abuse to NYSEFC. The selected firm also will be required to undergo training from NYSIG with regard to identifying and reporting allegations of mismanagement of Recovery Act funds. A senior NYSEFC official reported that NYSEFC would like to have the firm under contract by May 21, 2010, and in the field visiting projects as early as June 1, 2010.

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## New York Plans to Meet Recovery Act Requirements for Highway Infrastructure Investment Program Funds and Is Implementing Changes to Improve Reporting

In March 2009, FHWA apportioned \$1.12 billion in Recovery Act funds to New York for highway infrastructure and other eligible projects. The federal government obligated the state's full apportionment by the 1-year deadline of March 2, 2010.<sup>13</sup> NYSDOT reports that the majority of Highway Recovery Act funds are going towards the rehabilitation and repair of highways and bridges, as well as bridge replacement and highway reconstruction projects. As of May 3, 2010, \$238 million had been reimbursed by FHWA. From March 2 through April 26, 2010, the FHWA deobligated \$717,032 of the highway funds for New York and has until September 30, 2010, to obligate these funds to other projects. NYSDOT officials attributed the deobligated amounts to a few specific projects—for example, one project had funds deobligated because of savings from contract awards that were below original state cost estimates and another project had issues with a right-of-way permit.

NYSDOT officials reported that bids for state projects were 13 percent lower than the state's original estimated costs of the projects. However, they also pointed out that approximately 16 percent of their projects were awarded to contractors who submitted bids that were higher than the state's estimated costs.

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<sup>13</sup>This does not include obligations associated with \$175.5 million of apportioned funds that were transferred from FHWA to FTA for transit projects. Generally, FHWA has authority pursuant to 23 U.S.C. § 104(k)(1) to transfer funds made available for transit projects to FTA.

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## New York Is on Track to Meet Its Maintenance of Effort Requirement

The Recovery Act required the governor of each state to certify that the state would maintain the level of state spending for the types of transportation projects funded by the Recovery Act that it planned to spend the day the Recovery Act was enacted (which is known as a maintenance of effort—or MOE—requirement). Both FHWA and NYSDOT officials believe New York will meet its MOE requirement of \$2.1 billion. However, NYSDOT officials said the state’s multiyear budget deficits present a significant challenge in doing so.

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## NYSDOT’s Internal Audit Bureau Made Recommendations for Recipient Reporting Improvements and Plans Further Audit Work

NYSDOT submits quarterly recipient report information on all of its Recovery Act highway projects, which is reported on the federal [www.recovery.gov](http://www.recovery.gov) Web site. As requested by the state’s Economic Recovery and Reinvestment Cabinet, NYSDOT’s Internal Audit Bureau completed a review of the department’s recipient reporting process. This audit was focused on highway project reporting and contained 13 recommendations, including recommendations to verify data elements to a third-party source, perform periodic data reviews, and develop policies and processes for identifying differences in data posted and reported. NYSDOT accepted all of the recommendations and is implementing them as part of the Corrective Action Plan. In addition, NYSDOT’s Internal Audit Bureau is conducting “real-time” audit work of reported project information, which is shared with NYSDOT officials for immediate action; a formal audit report is not prepared. As a part of this work, on April 5, 2010, NYSDOT’s Internal Audit Bureau issued an assessment of the completeness of 42 data fields that regional offices are required to provide for Recovery Act projects. NYSDOT officials report that corrective actions are underway in response to this review. Further, NYSDOT Internal Audit Bureau officials report that they plan future reviews, including a review of the completeness of NYSDOT’s employment reporting. Additionally, the Internal Audit Bureau is planning an audit of local Recovery Act projects, but the timeline and audit plan have not been finalized.

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## New York's JAG Award Is Planned to Largely Support Implementation of State Drug Law Reform

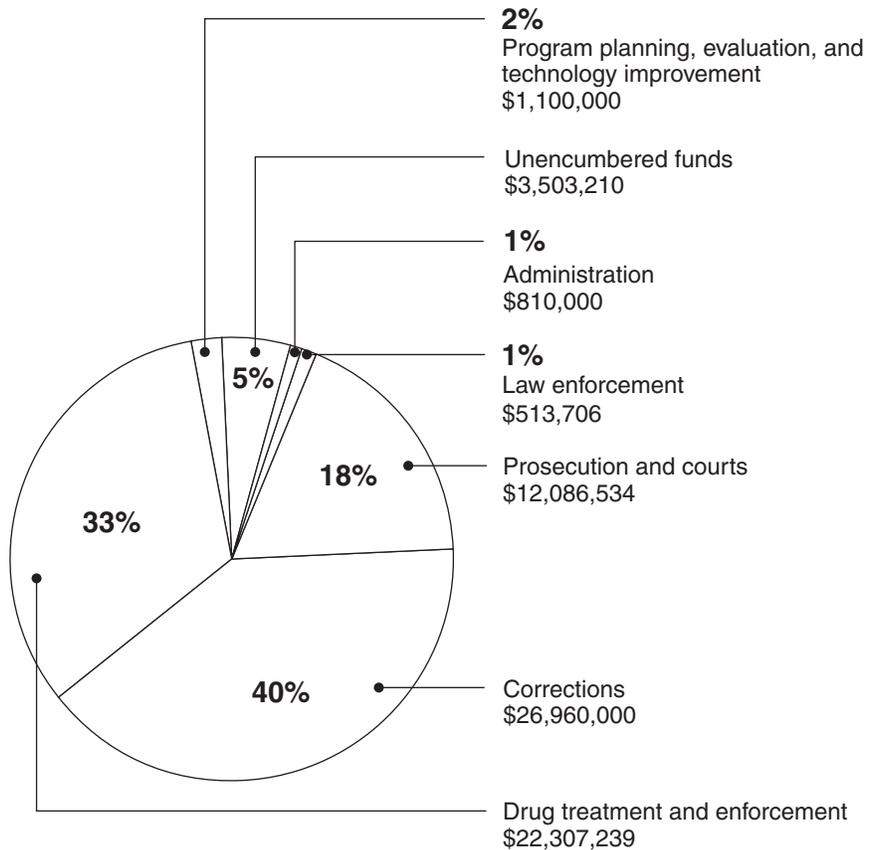
The Department of Justice's BJA awarded New York state and local governments about \$110.6 million in Recovery Act JAG funds. On the basis of a statutory formula, BJA awarded about 60 percent to New York state (\$67.3 million), part of which (\$43.8 million) was passed on to localities.<sup>14</sup> The Division of Criminal Justice Services (DCJS) administers JAG funds in New York and monitors the allocation of funds that are passed on to localities based on priorities outlined in the DCJS strategic plan. BJA awarded the remaining approximately 40 percent (\$43.3 million) directly to eligible localities in New York.

New York plans to use the majority of Recovery Act JAG funding to support corrections (for probation and reentry services), drug treatment and enforcement, and prosecution and courts program areas (see fig. 2).

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<sup>14</sup>The minimum percentage of Recovery Act JAG funds that New York state is required to pass through to local governments, referred to as "state pass-through funds" in this report, is 65.16 percent.

**Figure 2: State Allocation of JAG Funds by Program Area**



Source: New York State Division of Criminal Justice Services data.

According to officials, the state will use most of its Recovery Act JAG funds that it did not pass on to localities (the state’s share, which is the remaining 34.84 percent of the state’s award) to support implementation of reforms to the state’s Rockefeller Drug Laws (RDL), which emphasize treatment and prevention instead of incarceration for drug offenders.<sup>15</sup> For example, New York state plans to spend about \$22 million of Recovery Act JAG funds for drug treatment and enforcement and plans to use a share of

<sup>15</sup>In April 2009, Governor Paterson signed a law to reform the RDL, which previously required mandatory minimum prison terms for drug offenses by eliminating mandatory prison sentences for many drug offenses and emphasizing treatment and prevention. The legislation also provides judges discretion to divert nonviolent drug-addicted individuals to treatment alternatives.

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the nearly \$27 million allocated for corrections to help implement recent state law changes eliminating mandatory prison terms for many drug offenses and increasing judicial discretion to sentence many non-violent drug offenders to probation. According to New York state officials, some localities have already obligated and expended JAG funds to support prosecution projects across the state that would help assistant district attorneys reduce the number of prison commitments, as required by the RDL reforms. DCJS officials also said Recovery Act JAG funding has been critical in helping to maintain innovative pilot programs, such as prisoner reentry programs that help reduce recidivism.

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**Officials Report Using Recovery Act JAG Funding for Programs to Reduce Recidivism and for Personnel and Equipment Costs**

According to state and local officials in New York, Recovery Act JAG funding was used to support programs to reduce the pace of recidivism. For example, six recipients used about \$14 million in pass-through Recovery Act JAG grants from New York state to fund job placement programs to facilitate hiring returning offenders. In addition, without direct local Recovery Act JAG funds, New York City officials said they would have been unable to support the \$6.9 million Institute of Inner Development program, which focuses on combating adolescent recidivism. The New York City Department of Corrections is tracking performance benchmarks to evaluate its program and measure the impact of Recovery Act JAG funds.

The two localities we visited—New York City and Utica—are also using Recovery Act JAG funds for personnel and equipment costs. (See fig. 3.) According to officials, nearly all of New York City’s allocation of \$29.1 million in Recovery Act JAG funds has supported personnel costs, such as New York City fire department and corrections officer positions. New York City officials reported that without Recovery Act JAG funds, New York City would have eliminated 158 jobs because of budget cuts.

**Figure 3: Profile of Recovery Act JAG Projects Visited by GAO**

		
		Utica used JAG funds for mobile computer systems in police vehicles.
<b>Location</b>	New York, NY	Utica, NY
<b>Description</b>	To largely support essential public safety personnel, such as emergency call technicians, corrections officers, and fire department officers. Several agencies, including five district attorney's offices, the Department of Corrections, and the Fire Department are expected to receive funds. Funds are also planned to support implementation of Rockefeller Drug Laws reforms.	Funds will be shared between Utica and Rome police departments and Oneida County Sheriff's Department to improve public safety. Most funds will purchase equipment such as police patrol vehicles; light bars that provide high intensity light for police vehicles, and mobile computer systems. Funds will also be spent on developing a police station in a high crime neighborhood.
<b>Total Recovery Act funding</b>	\$29.1 million	\$271,831
	<ul style="list-style-type: none"> <li>• \$9.8 million for corrections (33.8 percent)</li> <li>• \$7.9 million for law enforcement (27.2 percent)</li> <li>• \$6.8 million for prosecution and courts (23.3 percent)</li> <li>• \$3.2 million for program planning, evaluation and technology improvement (10.9 percent)</li> <li>• \$1.4 million for crime victim and witness programs (4.8 percent)</li> </ul>	<ul style="list-style-type: none"> <li>• \$271,831 for law enforcement (100 percent)</li> </ul>
<b>Reported impact of project</b>	Officials estimate that funds enable New York City to retain 158 jobs that would otherwise have been eliminated due to budget cuts, and helped create 51 new jobs.	Officials expect that funds will support police officer overtime in a high crime neighborhood.

Sources: GAO analysis; Art Explosion (firefighter photograph); and GAO (computer systems photograph).

### DCJS Has Ongoing and Completed Audits Related to Recovery Act JAG Funds

As requested by New York's Economic Recovery and Reinvestment Cabinet, DCJS issued an audit report related to its compliance with recipient reporting requirements. DCJS's audit recommended that it clarify written procedures for reporting subrecipient expenditures and jobs; DCJS implemented a Corrective Action Plan as a result. In addition, according to DCJS officials, they are conducting joint site visits with the Office of

Program Funding and Development to monitor selected grantees that have relatively large Recovery Act JAG awards. Recovery Act JAG funds were not reviewed as part of New York's fiscal year 2009 Single Audit.

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## New York Has Made Progress Using Recovery Act Weatherization Funds, but the Number of Completed Units Is a Lagging Indicator

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which DOE is distributing to each of the states, the District, and seven territories and Indian tribes, to be spent by March 31, 2012. This program enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation or modernizing heating or air conditioning equipment.

Through March 31, 2010, just over 9 months after the DOE approved New York's weatherization assistance plan, DHCR has obligated \$207.5 million of its total allocation of \$394.7 million in Recovery Act Weatherization Assistance Program funds. DHCR has disbursed \$60.8 million to the 65 local weatherization agencies in New York to fund weatherization activities under the Recovery Act and reported that a total of 1,309 units had been weatherized using these funds. This is only 2.9 percent of its stated goal of 45,000 units. In part, this low completion rate results from the emphasis in the state plan on weatherizing multifamily projects, which account for over half of this goal. Multifamily projects typically take longer to complete than one- to four-family homes. This emphasis reflects the fact that two thirds of New York's income eligible population live in rental housing which, for the most part, are multifamily residences. DHCR officials were confident that they would not only meet but exceed their goal. Although only 1,309 units are counted as completed, DHCR officials reported that work on 10,546 units was currently under way (see fig. 4 for an example of the work being done) and that energy audits—which are required before weatherization can begin—of an additional 14,008 units had been completed. Once these 24,554 units are completed, New York will have completed 57.5 percent of the units needed to meet its goal.

**Figure 4: Community Environmental Center Workers Insulate a Home Being Weatherized in Brooklyn, New York**



Source: GAO.

## Many Factors Delay Completion of Multifamily Projects

One explanation for the seemingly slow completion rates through March 31, 2010, is the proportion of planned multifamily projects. In its approved plan, DHCR estimated that multifamily projects—those that house more than four families—would constitute over 23,000 of its stated goal of 45,000 units.<sup>16</sup>

Many factors delay completion of multifamily projects. For example, DHCR requires that an entity approved by DHCR conduct an energy audit of the residence. While all 65 local weatherization agencies are approved to conduct energy audits of one- to four-family homes, only six are approved to conduct their own audits of multifamily projects. The

<sup>16</sup>DHCR initially set aside \$50 million and ultimately awarded \$60.3 million of Recovery Act funds to target multifamily housing that have specific weatherization needs. Much of this targeted housing consists of large multifamily housing projects whose weatherization requires special expertise to manage. In recognition of that need, DHCR awarded grants to nine temporary subgrantees as well as to three local weatherization agencies to manage these projects.

remaining agencies must contract with a DHCR-approved entity, such as the Association for Energy Affordability. Local agencies' demand for more energy audits as a result of the influx of funding from the Recovery Act has created a backlog, resulting in delays in starting projects. DHCR is in the process of training local agencies to allow them to conduct their own energy audits of multifamily projects, but according to DHCR officials, this process takes at least 1 year. DHCR hopes to have over 30 local agencies approved to do multifamily energy audits by the end of the year.

The process is further complicated by DHCR's requirement that the owners of a multifamily project contribute to payment for the cost of the project. According to DHCR officials, this requirement is typically 25 percent of the project's cost, but the exact terms of the ownership participation have to be negotiated, and until the agreement is finalized, solicitations for bids on the project cannot be requested.<sup>17</sup>

Finally, according to DHCR officials, units in a multifamily project cannot be counted as completed until all work on each unit is finished and the project has been inspected and accepted by the local weatherization agency. At one agency we visited, over 100 one- to four-family homes had been weatherized by March 1, 2010. The director noted that in March, two multifamily projects consisting of 300 units would be completed, raising the agency's production from 100 to over 400 in 1 month.

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### DHCR Has Taken Steps to Improve the Training of the Weatherization Work Force

As of March 31, 2010, DHCR required that all energy auditors and crew chiefs be certified by the Building Performance Institute.<sup>18</sup> In addition, other skilled workers will be required to achieve certification soon. Although DHCR does not require certification for all weatherization workers, it does mandate that all workers receive training in specific areas, such as Lead Safe Practices, and encourages all local weatherization agencies to provide their workers with appropriate training. DHCR funds two training centers in the state operated by the Association for Energy Affordability and the New York State Weatherization Directors'

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<sup>17</sup>According to DHCR officials, on April 1, 2010, DHCR amended this policy by no longer requiring direct ownership investment for housing under the control of the federal, state, or local government such as public housing and publicly-assisted private housing.

<sup>18</sup>The Building Performance Institute is a national independent not-for-profit standards development organization for residential energy efficiency and weatherization retrofit work.

Association. DHCR officials stated that, because they recognized a need to increase the pool of qualified weatherization workers to meet the needs of local weatherization agencies hiring additional staff, they used Recovery Act funds to expand the training opportunities for workers at those centers. To avoid training cancellations, local agencies are charged a nominal fee for enrolling their worker in the training classes. For the state fiscal year ending March 31, 2010, 2,688 workers attended training at those centers compared with 1,138 the previous year—a 136 percent increase.

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### DHCR Has a Strong Program and Fiscal Monitoring System in Place

A recent DOE review found that DHCR had a robust monitoring system in place. As outlined in its approved Weatherization Plan for the use of Recovery Act funds, DHCR has two sets of inspectors that visit each local weatherization agency at least once every 2 months. The program inspectors review the program files to ensure that the agency has followed program guidelines in determining eligibility and developing a work scope based upon an energy audit and that the work has been properly inspected. At each of the three agencies we visited, we reviewed a sample of program files. In every case, we found evidence that client eligibility had been determined based on DHCR guidelines,<sup>19</sup> an energy audit had been conducted, the proposed weatherization measures met program guidelines, that the work had been done, and both the client and post inspector had signed off on the project.

In addition, DHCR program inspectors physically visit homes weatherized by the agency. Typically, DHCR visits 10 percent to 20 percent of the one- to four-family homes weatherized, although DOE only requires that 5 percent be inspected, and every multifamily project completed. We accompanied two program inspectors on their on-site reviews of weatherization projects and found their inspections consistent with the procedures detailed in the state's Weatherization Policy and Procedures manual. In one case, the inspector reviewed the project and found everything in order. However, he recommended that the local agency add a door between the furnace room and the rest of the home as an additional step. In another situation, we observed the inspector discuss with agency staff the best strategy to deal with a structural situation that arose during

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<sup>19</sup>Clients may be eligible for weatherization based on either categorical or income eligibility. Clients are categorically eligible if they receive public assistance, Supplemental Security Income, food stamps or Home Energy Assistance benefits. DHCR uses the Low Income Home Energy Assistance Program income guidelines to determine income eligibility for the weatherization program.

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an energy audit of a single-family home. Thus, in addition to their role as program monitors, the inspectors are a source of technical assistance to agency staff.

In addition to program monitors, according to DHCR officials, DHCR fiscal inspectors are supposed to do on-site reviews of agency accounting procedures. During these reviews, they should determine whether funds are properly accounted for and that the agency has proper internal controls in place. Further, state officials stated that they should review inventory practices used by the local agency to monitor the use of weatherization materials. As a result of these fiscal reviews, according to DHCR officials, two large recipients of Recovery Act weatherization funds have been placed under what DHCR calls “special conditions.” This means that before any vouchers can be submitted to DHCR for reimbursement, the on-site DHCR fiscal monitor must first review and approve them.

Besides DHCR and DOE reviews, local agencies are subject to other reviews conducted periodically by other entities, such as OSC and NYSIG. For example, according to a recent report, NYSIG has conducted recent reviews of weatherization activities in 11 counties and is providing fraud awareness training to all local weatherization agencies.

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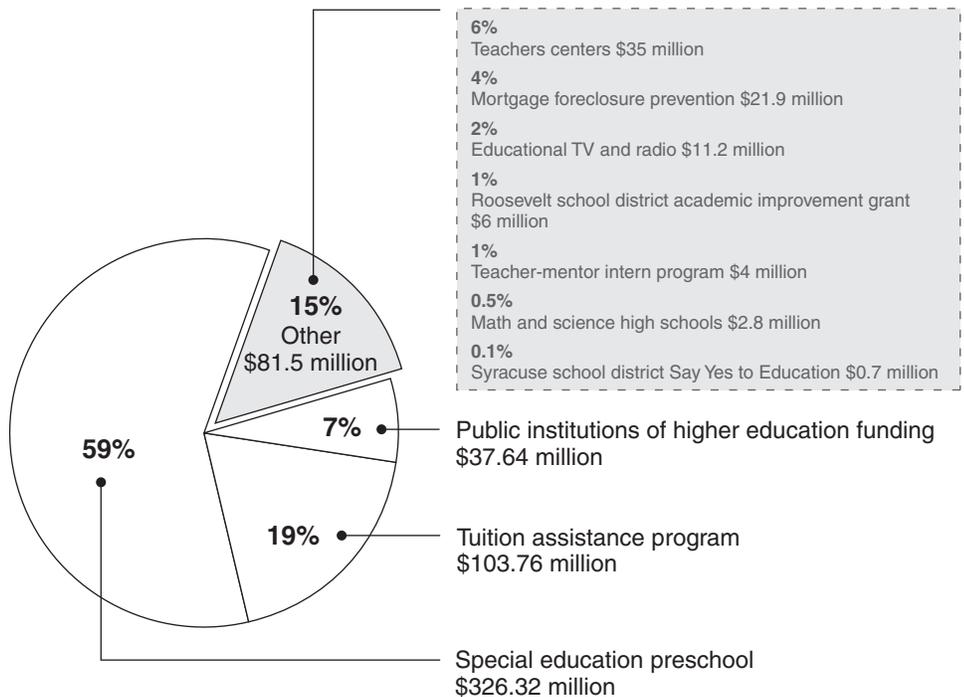
## New York Is Disbursing SFSF Government Services Funds Slowly to Programs Facing Cuts, and Recovery Act Education Programs Are Being Monitored

For this bimonthly report, we reviewed (1) the use of Recovery Act SFSF government services funds by the New York State Education Department (NYSED), Division of Budget, and DHCR and (2) the extent to which the state is monitoring the SFSF and Recovery Act ESEA Title I, Part A and IDEA, Part B funds to ensure that they are used appropriately.

**New York Primarily Is Using SFSF Government Services Funds for Education Programs That Faced Cuts, but Disbursements Remain Slow because of Administrative Delays**

Education allocated 81.8 percent of Recovery Act SFSF funds to states to support education programs (education stabilization funds) and the remaining 18.2 percent for public safety and other government services (government services funds), which may also include education programs. New York allocated most of its \$549 million allocation of government services funds on education programs that the state had previously intended to cut and a small amount on a Mortgage Foreclosure Prevention Program for homeowners. Two education programs are receiving approximately 80 percent of the government services funds—special education preschool and tuition assistance for low-income college students. The following figure shows the programs New York supported with Recovery Act SFSF government services funds.

**Figure 5: Programs Funded by Recovery Act SFSF Government Services Funds**



Source: GAO analysis of New York State Monitoring Plans and Protocols for the State Fiscal Stabilization Education and Other Government Services Fund.

Note: The SFSF funds have been programmed for Fiscal Year, School Year, and Academic School Year 2009-2010 and 2010-2011. Although the allocations were included in the NY 2010-2011 Executive Budget, they are subject to change pending enactment of the 2010-2011 State Budget.

As of April 23, 2010, only \$83.8 million, or 15 percent, of the government services funds allocation had been disbursed. As we previously reported,

New York is disbursing Recovery Act education funds slowly, relative to other states.<sup>20</sup> As of April 16, New York's rate of 15 percent was one of the lowest rates of funds disbursed compared with the 56 percent average among the 16 states and the District of Columbia included in our Recovery Act review. Nevertheless, a senior state budget official said she believes the SFSF government services funds will be obligated by the federal deadline of September 30, 2011, with disbursements also occurring by federal deadlines, even though the program receiving the most funding—the special education preschool program—and three other programs had not disbursed any government services funds as of April 23, 2010. State officials said this is partly because NYSED typically reimburses counties for their expenditures on the preschool program approximately 9 months after the start of the school year on July 1. Although the program begins at the start of the school year, it is funded by the state's budget for the next fiscal year, which begins on April 1. Officials are preparing to provide the first reimbursement to counties by the end of June, after taking additional steps to ensure that only Recovery Act funds are included in the reimbursement requests. An official at another program that had not disbursed funds as of April 23, the Mortgage Foreclosure Prevention Program, said they did not receive authorization from the state to disburse funds until March 2010. As of April 15, they have named 6 of the approximately 60 planned awardees and plan to expend all of the program's funds by September 2010. We will continue to monitor the SFSF government services funds disbursement rate for New York.

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<sup>20</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

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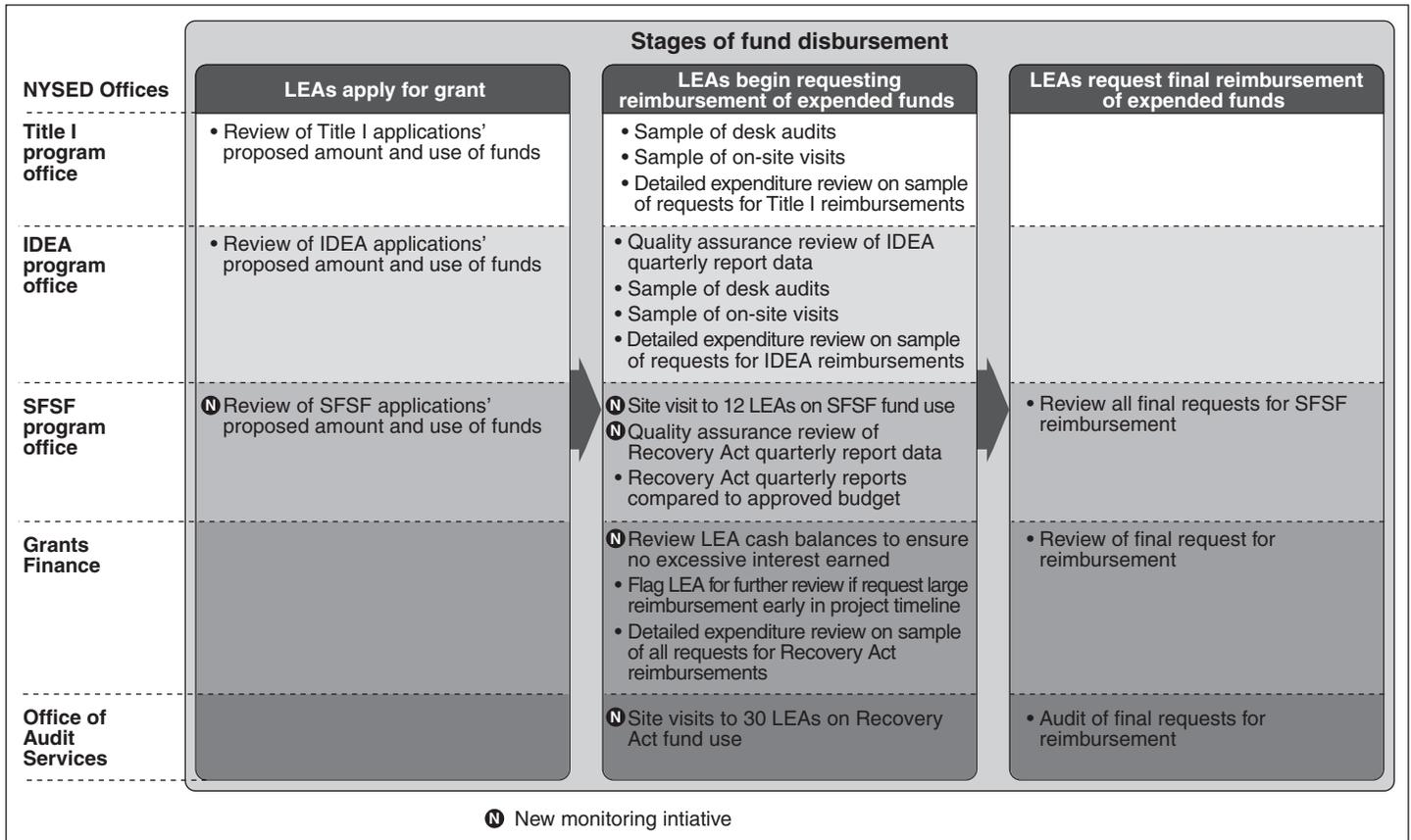
New York Has Begun to Implement a New SFSF Monitoring Plan and Undertake Some Additional Monitoring of ESEA Title I and IDEA Funds

The three state agencies responsible for overseeing the use of SFSF education stabilization funds and government services funds in New York—NYSED, the Division of Budget, and DHCR—finalized a new monitoring plan in March 2010 that includes reviews of all SFSF applications and quarterly reports, on-site monitoring visits, desk reviews, and audits of a sample of school districts, community colleges, and vendors to assess whether subrecipients are spending and safeguarding the SFSF funds according to Recovery Act requirements.<sup>21</sup> New York provided Education with the monitoring plan on March 12, 2010 and Education officials are currently reviewing the plan along with plans from other states. Under the new plan, NYSED expects to perform site visits at 37 of the state’s approximately 700 local educational agencies (LEA) by June 2011; the Division of Budget plans to visit 7 of the state’s 36 2-year colleges by the end of this summer; and DHCR plans to visit approximately 4 of 60 vendors receiving Recovery Act mortgage foreclosure prevention grants by next spring. Thirty of the 37 NYSED visits will oversee the use of all Recovery Act funds, while the other NYSED, Division of Budget, and DHCR visits will focus only on SFSF funds. Each agency selected sites based on risk assessments or random sampling and will require corrective action if a finding is made. Figure 6 highlights some new and existing monitoring activities of Recovery Act funds for SFSF, ESEA Title I, and IDEA by NYSED’s program and administrative offices. Monitoring Recovery Act education funds may pose a challenge as all of the NYSED offices have lost staff in recent years, which have not been replaced due to state budget cuts, and have incurred an increase in workload from the Recovery Act, such as reviewing a greater amount of grant applications from LEAs and providing support to LEAs struggling with Recovery Act requirements.

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<sup>21</sup>The SFSF monitoring plan was required as a condition of accepting education stabilization funds from the U.S. Department of Education and was recommended to New York by Education’s Office of Inspector General in *New York State System of Internal Control over American Recovery and Reinvestment Act Funds*, Ed-OIG/A02J0006 (Washington, D.C.: Nov. 10, 2009).

Figure 6: Highlights of Some NYSED Monitoring Activities of SFSF, Recovery Act ESEA Title I, and IDEA Funds



Source: GAO analysis of NYSED information.

Altogether, NYSED's program and administrative offices will conduct 42 visits to approximately 37 LEAs under its new SFSF monitoring plan. Five of these LEAs will be visited by more than one office. As of April 28, 2010, NYSED has published reports on four LEAs selected for visits and found the following:<sup>22</sup>

<sup>22</sup>NYSED's Office of Audit Services has published these reports on its Web site at [http://www.oms.nysed.gov/oas/Audit\\_Report/SchoolDistricts/SchoolDistricts.html](http://www.oms.nysed.gov/oas/Audit_Report/SchoolDistricts/SchoolDistricts.html). The school districts reviewed include Saranac Central, Malone Central, Hamburg Central, and Eden Central.

- Three LEAs had submitted requests to NYSED for reimbursement of education stabilization funds that included estimated future expenditures when they should only include expenditures to date.
- All of the LEAs lacked a process for ensuring compliance with federal cash management requirements to minimize the amount of time between receiving and disbursing funds and remitting interest on federal funds earned in excess of \$100. However, the audits concluded that the LEAs did not earn interest exceeding \$100 during the period audited.
- Two of the four LEAs were not regularly preparing personnel activity reports as federally required for staff salaries that are paid by multiple funding streams.

However, NYSED ESEA Title I and IDEA program officials said their offices have not enhanced their existing risk assessment for Recovery Act funds to account for the greater risk that funds could be misused because of the large increase in federal funding for these two programs from the Recovery Act. The ESEA Title I and IDEA program offices' existing monitoring protocols include reviews of annual applications for the approximately 700 LEAs, and desk audits and on-site visits of a sample of LEAs selected using risk based criteria, according to officials.

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## Although Recovery Act Funds Provided the State and Localities with Short-term Budget Support, Shortfalls Persist for Projected Budgets

New York state continues to face fiscal challenges, and the state's March 2010 unemployment rate increased to 8.8 percent, compared with 8.2 percent a year ago.<sup>23</sup> Since our December 2009 report, the Governor has proposed a 2010-2011 Executive Budget that closes a projected \$9.2 billion budget deficit through several avenues—additional federal fiscal relief, spending reductions, and revenue actions, such as increases in taxes and fees.<sup>24</sup> The Governor's plan recommends spending cuts in the following: school aid (\$1.1 billion, or 5 percent year-to-year, decrease), health care (\$1 billion, mainly in Medicaid and health care savings), and agency spending (\$1 billion in reductions to state agency operations). The 2010-2011 Executive Budget also proposes \$1.2 billion in revenue actions that increase taxes and fees. However, the state legislature must approve a budget before the state can finalize it.<sup>25</sup>

According to state budget officials, Recovery Act funds have provided critical short-term support to state finances. For example, the state has accelerated the use of \$391 million in SFSF funds by moving funds from future fiscal years to address the midyear budget gap in fiscal year 2009-2010. According to these officials, New York state plans to address the "funding cliff" that will result when Recovery Act funds are no longer available as part of the 2011-2012 Executive Budget. State officials will propose a range of efforts to close total projected budget gaps that grow from \$5 billion in fiscal year 2011-2012 to approximately \$12 billion by fiscal year 2013-2014.

As identified in our December 2009 report, Recovery Act funds have provided short-term budget relief to several localities throughout the state. We followed up with two of these localities, New York City and Westchester County, to update their latest use of funds, current fiscal

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<sup>23</sup>The U.S. Department of Labor, BLS reported the 8.8 percent unemployment rate for New York state for March 2010 and the 8.2 percent unemployment rate for March 2009. The March 2010 rate is preliminary. Both the March 2010 and 2009 rates have not been seasonally adjusted.

<sup>24</sup>State officials said that the state financial plan includes the receipt of \$1.06 billion in increased federal Medicaid funds for fiscal year 2010-2011 and another \$1.06 billion for fiscal year 2011-2012. The Medicaid estimate is based upon the state's expectation that Congress will extend the temporary increase in the Federal Medical Assistance Percentage under the Recovery Act.

<sup>25</sup>New York state operates on an April 1 through March 31 fiscal year. At the time of this report, the New York state legislature had not yet approved the budget details.

condition, and preparation for the phasing out of Recovery Act funds.<sup>26</sup>  
 (See table 1 for locality background information.)

**Table 1: Background on Selected Local Governments**

Local government	Population	Type of local government	Unemployment rate	Fiscal year 2010 operating budget
New York City	8,363,710	City	9.9%	\$63.5 billion
Westchester County	955,962	Suburban	7.2%	\$1.8 billion

Source: U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics. Operating budget detail obtained from the New York City May 2010 Budget Summary and Westchester County's 2010 Adopted Summaries County Current Operating Budgets.

Notes: City population data are from the latest available estimate, July 1, 2008. County population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

New York City

**Officials report that Recovery Act funds helped maintain fiscal stability.** Since we last visited, New York City received \$383 million in additional Recovery Act formula and competitive grants funds, bringing the city's total Recovery Act funds to over \$7.2 billion for both capital and noncapital programs. Officials reported that Recovery Act funds helped offset expenses and maintain the city's fiscal stability to a significant extent. Programs in education (\$1.9 billion) and Medicaid (\$2.8 billion) continue to be the major use of funds.<sup>27</sup> Other programs that have recently received funding include a formula grant for Clean Water SRF projects (\$219.5 million) and competitive grants for the Broadband Technology Opportunities Program (\$22.2 million), the Health Information Technology Extension Program (\$21.7 million), and the Neighborhood Stabilization Program 2 (\$20.1 million). New York City officials reported applying for 93 competitive grants. Of these, the city was awarded 21, denied 59, and awaits the decision on 13 grants.<sup>28</sup> City officials stated they often work

<sup>26</sup>New York City operates on a July 1 to June 30 fiscal year while Westchester County operates on a January 1 to December 31 fiscal year.

<sup>27</sup>New York City officials stated that this amount includes the receipt of increased federal Medicaid funds. The Medicaid estimate is based upon the city's expectation that Congress will extend the temporary increase in the Federal Medical Assistance Percentage under the Recovery Act.

<sup>28</sup>For more information on specific New York City grants, see the Clean Water and Drinking Water SRFs and the Edward Byrne Memorial Justice Assistance Grants sections of this appendix.

with local and nonprofit organizations to identify and apply for Recovery Act funds.

**Current and proposed cuts in state aid concern New York City officials.** Although New York City revenues are projected to grow in fiscal year 2011, officials expect these levels to remain below prerecession totals. The city closed a projected fiscal year 2011 budget gap of \$4.9 billion through planned spending reductions and the use of the \$3.3 billion surplus funds from fiscal year 2010. However, New York City officials noted that this gap-closure plan does not account for proposed reductions in state assistance as part of the state's budget actions. According to officials, the state's proposed \$1.3 billion reduction in funding to New York City would likely result in potential layoffs in education (approximately 6,400 teachers) and a reduction of 800 uniformed firefighters through attrition.

**Officials are developing a plan for when Recovery Act funds are no longer available.** New York City officials said they are aware of the funding cliff that will result when Recovery Act funds are no longer available and are currently working on a plan to prepare for it. Although the city's January 2010 Financial Plan closes the fiscal year 2011 budget gap, the phasing out of Recovery Act funds will affect the budgets for fiscal years 2012 through 2014, when deficits above \$3 billion each year are expected to persist. New York City officials reported that any exit strategy from Recovery Act funds depends on the state's plan as well.

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## Westchester County

**Officials reported that Recovery Act funds affected fiscal stability.** Since our December 2009 report, the county has received a \$4.5 million Energy Efficiency and Conservation Block Grant (EECBG).<sup>29</sup> However, the main uses of the county's \$116.3 million in Recovery Act funds are upgrading the county's Mamaroneck Wastewater Treatment Plant (\$24.4 million) and for Medicaid (\$35.6 million).<sup>30</sup> Officials added that Recovery Act funds have helped counter declines in county revenues and offset some of the increased expenses in social services. Finally, county officials stated that the county maintains the application for and operation of many

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<sup>29</sup>Westchester County's Recovery Act funding detail is as of April 6, 2010.

<sup>30</sup>For more information on Westchester County's Mamaroneck Wastewater Treatment Plant, see the Clean Water and Drinking Water SRFs section of this appendix.

activities within the county, minimizing their need to coordinate with other local entities when applying for Recovery Act funds.

**Declines in sales tax and state aid continue to affect the county.**

The county budgeted about \$1 billion in tax revenues for fiscal year 2010, with an almost even split between receipts from property and sales tax revenues. Although property tax revenues have held steady during the downturn, sales tax revenues decreased about 10 percent from fiscal years 2008 to 2009. Officials added that state aid has been stagnant or decreasing in recent years, including reductions in funding for major service areas such as health care and transportation. Officials also stated that costs of health care and retirement benefits have increased as well. As a result, officials forecast a fiscal year 2011 budget gap of about 9 percent, even though sales tax revenues in fiscal year 2010 are predicted to increase 3 percent to 4 percent.

**Officials are identifying actions to address future budget gaps.**

Westchester County officials reported that they do not have a defined plan for addressing the funding cliff that will result when Recovery Act funds are no longer available. However, they are considering several actions to mitigate the phasing out of funds and future budget gaps. These actions include current fiscal year cuts to build a surplus for next year's predicted budget shortfall; possible layoffs; and addressing structural issues, such as Medicaid funding. Overall, county officials have sought to minimize future liabilities by focusing on grant applications for nonrecurring expenses in transportation and infrastructure over those for social services, which often require future-year funding.

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## New York Has Multiple Entities with Recovery Act Oversight Responsibilities

In New York, the Stimulus Oversight Panel,<sup>31</sup> Economic Recovery and Reinvestment Cabinet (headed by the Governor's office), and OSC are primarily responsible for statewide oversight of Recovery Act funds.<sup>32</sup> In addition, an estimated 90 percent to 95 percent of the state's Recovery Act funding will be part of the state's Single Audit. To date, these oversight entities have completed audits of a number of Recovery Act programs and reviewed crosscutting Recovery Act issues, such as civil rights compliance and recipient reporting.<sup>33</sup> According to NYSIG officials, NYSIG also has ongoing investigations related to complaints received through the Stimulus Complaint hotline, which will be posted on its Web site when complete.

Some findings from completed audits or oversight activities have led to enhanced guidance, revised procedures, or additional training. For example, NYSIG identified that funds from the Weatherization Assistance Program and Community Services Block Grants (CSBG) consistently have been distributed to many of the same community action groups with limited collective oversight and accountability.<sup>34</sup> Therefore, NYSIG is working to enhance field reviews by having both state agencies responsible for these programs—DHCR and the Department of State—and others, when appropriate, jointly review community action groups. NYSIG also has developed a training curriculum on fraud, waste, and abuse awareness to provide on-site to community action groups, not-for-profits, and localities receiving Recovery Act funding, which will commence shortly.

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<sup>31</sup>The NYSIG, state Division of Human Rights Commissioner, Metropolitan Transportation Authority IG, and Medicaid IG constitute the Stimulus Oversight Panel.

<sup>32</sup>OSC is responsible for tracking and monitoring the progress of Recovery Act funding and ensuring that the funding meets established internal controls. OSC also must review and approve all contracts over \$50,000; OSC does not have pre-approval authority over contracts awarded by local governments.

<sup>33</sup>The following programs have been audited: Weatherization Assistance Program (Weatherization), Community Services Block Grants (CSBG), Highway Infrastructure Investment Program (Highways), Unemployment Insurance, Workforce Investment Act of 1998 (WIA) Adult Program, WIA Youth Activities, WIA Dislocated Workers, and Medical Assistance Program (Medicaid). Additional work is planned for Weatherization, Highways, WIA, and Medicaid.

<sup>34</sup>NYSIG joined DHCR in fiscal and program audits of 11 community action groups that received Recovery Act weatherization grants and participated in a joint fiscal audit with the Department of State of a community action group receiving Recovery Act CSBG funding.

Another member of the Stimulus Oversight Panel, the Division of Human Rights (Human Rights), has examined general civil rights compliance procedures at agencies receiving Recovery Act funds. Human Rights determined that most agencies were aware of their general obligations to comply with the applicable civil rights laws and willing to investigate specific complaints if received. However, it found those agencies that do collect data about their contractors' employment practices do not analyze the data or monitor compliance. In response, it developed a set of best practices for compliance. It also has referred to a federal agency a possible violation regarding the award of a Recovery Act contract to a business fraudulently claiming minority status.

OSC has completed four audits of procurement procedures for Recovery Act related highway projects at 39 municipalities. These audits found that the local governments followed sound procurement procedures when awarding contracts funded with Recovery Act funds. However, OSC, through its contract-review responsibility, uncovered an issue with vendor responsibility on a contract awarded by the New York State Department of Transportation. As a result, NYSDOT officials reported that OSC initially did not approve the \$26.8 million Recovery Act highway contract and will now require more documentation of vendor responsibility for all new NYSDOT contracts over \$100,000. In response, NYSDOT officials stated that NYSDOT convened a meeting of its Contract Review Unit, conducted further investigation, obtained additional documentation, and added an Integrity Monitoring Agreement. NYSDOT officials reported that OSC ultimately approved the initially rejected contract.

The most recent Single Audit, which was issued November 25, 2009, for the fiscal year ending March 31, 2009, identified about \$1.8 billion in Recovery Act spending through March 31, 2009, in five programs: Unemployment Insurance, Workforce Investment Act of 1998 (WIA) Adult Program, WIA Youth Activities, WIA Dislocated Workers, and Medicaid. The auditors reported material weaknesses in internal controls concerning 238 duplicate payments totaling \$5,950 in the Unemployment Insurance program and inadequate identification of Recovery Act funds as separate from regular program funds for Medicaid. The state implemented a manual process to prevent future duplicate payments and took steps to improve identification of Recovery Act funds for Medicaid. According to officials, the Single Audit for the fiscal year ending March 31, 2010, will focus resources on the Weatherization Assistance Program and Highway Infrastructure Investment Program, which received significant Recovery Act funds.

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## State Comments on This Summary

We provided the Governor of New York with a draft of this appendix on May 6, 2010. A representative from the Governor's office responded on May 10, 2010. We also provided various state agencies and local officials with the opportunity to comment. In general, they agreed with our draft and provided some clarifying and technical suggestions that were incorporated as appropriate.

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## Staff Acknowledgments

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# Appendix XIV: North Carolina

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## Overview

The following summarizes GAO's work for the sixth of its bimonthly reviews of the American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in North Carolina. The full report covering all of our work in 16 states and the District of Columbia is available at <http://www.gao.gov/recovery>.

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## What We Did

Our work in North Carolina included gathering information about eight programs funded under the Recovery Act—3 education programs, the Weatherization Assistance Program, the Transit Capital Assistance Fund, the Dislocated Worker program under the Workforce Investment Act (WIA), and the Clean Water and Drinking Water State Revolving Funds. We also reviewed the use of Recovery Act funds for budget stabilization at the state level and in four local communities, and reviewed the work of the accountability community in monitoring and reporting on Recovery Act funds. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

For education, we reviewed North Carolina's monitoring plans for the expenditure of funds under the State Fiscal Stabilization Fund (SFSF), Title I of the Elementary and Secondary Education Act of 1965 (ESEA), as amended, and Part B of the Individuals with Disabilities Education Act (IDEA), as amended, to ensure local educational agencies (LEA) are spending the funds in compliance with applicable laws and regulations. We also reviewed the state's fiscal monitoring activities and visited two local educational agencies—Winston-Salem/Forsyth County Schools and Avery County Schools—to review Recovery Act spending and how LEAs were ensuring appropriate use of the funds. Our review of LEAs included an examination of local compliance with state directives governing procurement with Recovery Act funds.

For the Weatherization Assistance Program in North Carolina, we visited the State Weatherization Office and three community action agencies that are executing the program (Four County Community Services, Laurinburg, N.C.; Martin County Community Action, Williamston, N.C.; and Watauga-Avery-Mitchell-and Yancey Counties (W.A.M.Y.) Community Action Agency, Boone, N.C.). We interviewed officials and reviewed guidance and other documents related to the Weatherization Assistance Program pertaining to monitoring, client eligibility, and program status. We also

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

reviewed 10 client files from each of the three community action agencies to determine completeness of the files and inclusion of required documentation. We also accompanied weatherization staff as they performed initial audits, work in progress, and final inspection of nine homes.

For the transit program, we visited the North Carolina Department of Transportation and AppalCART, a local transportation agency, to follow up on their oversight of the construction of AppalCART's new transit facility.

For the Dislocated Workers program, we visited the North Carolina Department of Commerce to gather information about the state workforce development board's use of Recovery Act funds for the program. We also visited two local Workforce Development Boards, Lumber River and Charlotte-Mecklenburg, to review the use of funds at the local level.

We reviewed the Clean Water and Drinking Water State Revolving Funds (SRF) under the direction of the North Carolina Department of Environment and Natural Resources (DENR), which is distributing these funds; interviewed state officials; and reviewed documents. In addition we interviewed officials at the Charlotte-Muddy Creek/Campbell Creek Project for the Clean Water SRF and at the Perquimans County Winfall Treatment Plant Project for the Drinking Water SRF. The Clean Water project was in an urban area and a Green Reserve Requirement Program project. The Drinking Water project was in a rural community and serves a community in need of drinking water infrastructure improvements.

To learn more about use of Recovery Act funds to stabilize state and local budgets, we visited four local communities—Bladen County, the City of Durham, Halifax County, and the City of Jacksonville. We also interviewed state budget officials to gather information about the state's fiscal condition, including challenges to future economic recovery.

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## What We Found

- **Education.** North Carolina conducts on-going fiscal monitoring of LEA expenditures under the three Recovery Act programs—SFSF, IDEA Part B, and ESEA Title I—through its existing processes of electronic systems checks, yearly desk audits, and selected on-site monitoring as well as some additional reviews incorporated specifically for SFSF. Although North Carolina has a range of monitoring processes in place, weaknesses in LEA monitoring efforts—allowing use of federal funds on potentially unallowable

purchases and failure to follow some procurement regulations, for example—show the need for the state to enhance its monitoring efforts related to the use of Recovery Act funds. We also discussed with North Carolina officials their experiences with meeting education reform assurances for SFSF and implementing the Recovery Act School Improvement Grant (SIG) program. These officials reported that additional funding would help further enhance and expedite data collection efforts related to meeting the assurances and that limited time to disburse funds to LEAs is the primary challenge in implementing the SIG program in the state. Finally, we found that while North Carolina has processes in place to collect and review LEA and institution of higher education (IHE) recipient reporting data, more review by the state is necessary to ensure that the data local entities submit is accurate. For example, in the second round of recipient reporting, the state likely missed under-reporting by one IHE because the state does not collect and review IHEs' supporting documentation.

- **Weatherization.** North Carolina weatherization officials have established several controls to ensure subgrantees' compliance with Recovery Act requirements, but face challenges meeting monitoring goals due to staffing levels. Subgrantees reported that slow allocation and reimbursement of funds by the state agency created challenges for them in executing the program.
- **Transportation.** We found that the North Carolina Department of Transportation and AppalCART, a local transit agency, are experiencing challenges in providing oversight for the first non-urban, Recovery Act-funded transit infrastructure project in the state; and the Recovery Act Buy American and prevailing wage requirements for that project had not been enforced or monitored.
- **Dislocated Workers.** The North Carolina Division of Workforce Development distributed 60 percent of the nearly \$44 million in Recovery Act funds it received for the WIA Dislocated Worker program. The state trained 38 percent more dislocated workers between July 1, 2009, and December 30, 2009, than in the corresponding period in the previous year. The local areas we visited—Lumber River and Charlotte/Mecklenburg had over a 300 percent increase in the number of dislocated workers who participated in training compared to the same period in the previous year. State officials told us Recovery Act funds are primarily being used for individual training accounts, which individuals use to purchase training.

- **Clean and Drinking Water State Revolving Funds.** State officials told us they have met all the Recovery Act deadlines with minimal challenges including the February 17, 2010, deadline for projects to be under contract. In the Clean Water SRF Green Reserve Requirement Program, challenges included applicants failing to obtain needed easements prior to loan approval and the subsequent need to find other loan applicants.<sup>2</sup> In the Drinking Water Program, officials noted late or insufficient guidance from the Environmental Protection Agency (EPA) and the Department of Labor (Labor). The state set a maximum loan amount of \$3 million per project when distributing Recovery Act funds in order to spread funding across a larger number of assistance recipients and established principal forgiveness to encourage participation.
- **State and Local Budget Stabilization.** The localities we visited used Recovery Act funds to support a variety of initiatives. Although their budgets differed in terms of stability, officials in all four localities told us that the Recovery Act funds they received helped to start, continue, or speed up a variety of programs and projects in their jurisdictions. However, they also told us Recovery Act funds were not enough to affect their government's fiscal stability. Local officials told us they continue to face difficult budget decisions in the wake of declining property and sales tax revenues. State officials told us North Carolina continues to face significant budget challenges, but reported signs of improvement in revenues for the first quarter of 2010.

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<sup>2</sup>A project is defined in the Recovery Act as qualified for the green reserve requirement funding if it addresses green infrastructure, water or energy efficiency improvements or other environmentally innovative activities. The Recovery Act requires that a state set aside at least twenty percent of its grant for these types of projects.

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## North Carolina Has Incorporated Monitoring of LEAs' Use of Recovery Act Funds into Existing Education Monitoring Practices and Protocols

As of April 16, 2010, North Carolina had drawn down about \$546 million (47 percent) of its \$1.2 billion in SFSF education stabilization funds, \$82 million (20 percent) of its \$258 million in ESEA Title I funds, and \$124 million (38 percent) of its \$327 million in IDEA Part B Recovery Act education funds.<sup>3</sup> For these programs, we reviewed North Carolina's monitoring plans to examine the extent to which the state is ensuring that LEAs are spending the funds in compliance with applicable federal laws and regulations. North Carolina Department of Public Instruction (DPI) officials reported that the department conducts ongoing fiscal monitoring of expenditures of federal, state, and local funds for all LEAs through its electronic systems and yearly desk audits. DPI has incorporated its review of Recovery Act funds into these existing processes and conducts additional checks of SFSF funds. Additionally, DPI staff makes on-site fiscal monitoring visits to selected LEAs to review internal controls and the extent to which education expenditures comply with federal laws and regulations. DPI officials said that they have also incorporated a review of Recovery Act funds into protocols staff use during on-site visits. Although North Carolina has a range of monitoring processes in place, weaknesses in LEA monitoring efforts provide an opportunity for the state to enhance its efforts related to the use of Recovery Act funds.

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## North Carolina Monitors Recovery Act Funds through Existing Electronic Systems and Desk Audits

DPI officials reported that they monitor LEAs' use of federal education funds, including Recovery Act funds, through existing systems and procedures. For example, DPI monitors how LEAs spend funds through reports of all LEA expenditures that are electronically generated by LEA accounting systems each month.<sup>4</sup> LEAs are also required to submit budgets to DPI through the state Budget Utilization and Development (BUD) system, which captures salary data and information on equipment purchases over \$5,000. Each month, DPI compares the monthly expenditure data that LEAs submit to the data in BUD. These expenditure data are also run through a series of electronic checks through DPI's Uniform Education Reporting System to determine compliance with certain accounting specifications. Once the expenditure data have passed these checks, they are validated against the state's Uniform Chart of Accounts to determine which expenditures, if any, are coded to unallowable or invalid account codes. DPI officials said that they request

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<sup>3</sup>Recovery Act funds must generally be obligated by September 30, 2011, for these programs.

<sup>4</sup>North Carolina requires all LEAs to use a benchmarked accounting system.

corrections from those LEAs that have expenditures assigned to an unallowable or invalid account code.

Additionally, DPI officials told us that it conducts a variety of additional monitoring steps. For example, staff in the ESEA Title I and IDEA Part B program offices conduct routine comparisons of LEA budgets with expenditures in these programs. DPI officials also said that the department conducts audits of all expenditures coded as “certified personnel” (i.e., teachers) through the state’s salary and licensure database to ensure that the employees coded to a specific grant are paid from an allowable fund and that the employees are certified with the appropriate licenses. Finally, DPI officials reported that the department conducts yearly reviews of findings from the independent Single Audits required for all LEAs.<sup>5</sup> DPI officials said, based on the Single Audit findings, DPI would initiate actions against LEAs ranging from a request for an action plan from an LEA to a requirement for the LEA to repay funds.

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<sup>5</sup>DPI has one staff person assigned to conduct the yearly review of Single Audit findings for all of the state’s LEAs and charter schools.

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North Carolina Conducts Some On-Site Monitoring of Recovery Act Education Funds through Existing Procedures and Conducts Some Additional Monitoring of SFSF Education Stabilization Funds

DPI officials said that they also monitor LEAs' use of federal funds, including Recovery Act funds, through visits to selected LEAs. DPI officials reported that the ESEA Title I program monitoring schedule determines the state's schedule for on-site fiscal monitoring of LEA use and management of all federal funds, including Recovery Act funds.<sup>6</sup> DPI officials reported that they use a risk assessment protocol for selecting LEAs that is primarily based on ESEA Title I program issues, including factors such as number of schools designated as "in improvement"<sup>7</sup> but also includes information from LEA Single Audit findings and other factors.<sup>8</sup> LEAs deemed high risk receive priority for an on-site visit from state ESEA Title I staff and DPI's fiscal monitoring staff, with the goal of visiting all LEAs once every 5 years.<sup>9</sup> DPI officials reported that as of April 2010 it had completed fiscal monitoring in all of the 11 LEAs scheduled for on-site visits for the 2009-2010 year (visits were scheduled to begin in December 2009 and conclude in April 2010).

However, DPI did not modify its existing risk assessment process for selecting LEAs for on-site monitoring after the receipt of Recovery Act education funds. DPI officials told us that they are currently in year 5 of their monitoring cycle, meaning they are primarily visiting LEAs with lower risk ratings. They said that they did not redo the risk assessment

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<sup>6</sup>DPI officials said that the department did not have a formal program monitoring process for IDEA Part B.

<sup>7</sup>ESEA requires uniform statewide standards-based assessments and an accountability system to determine whether Title I schools made adequate yearly progress (AYP). Schools "in improvement" have failed to make AYP for at least 2 consecutive years.

<sup>8</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair representation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable federal requirements for certain programs.

<sup>9</sup>DPI officials reported that those LEAs determined to be low risk complete self-monitoring tools and submit their findings to the state. DPI assigns medium risk LEAs to a desk monitor who reviews the single audit findings related to the Title I program. These actions are taken in the same years as on-site visits. For example, as of May 2010, DPI's 2009-2010 monitoring schedule lists 11 LEAs expected to submit self-monitoring tools and six LEAs that would receive desk reviews.

based on the receipt of Recovery Act funds, but decided to stick with their 5-year plan and visit LEAs that have not been visited. A DPI official explained that because North Carolina does not provide funding for fiscal monitoring, staff must work within the Title I schedule in order to use federal funds for fiscal on-site visits. Further, the North Carolina State Auditor recently reported that, for the IDEA program, DPI did not alter its monitoring plans to ensure that subrecipients of Recovery Act funds would be monitored prior to the expiration of the grant.<sup>10</sup> As we have previously reported, a component of strong internal control is the use of risk assessments to identify relevant risks for their possible program impact and establish policies and procedures to manage those risks. We have also reported that Recovery Act programs should be reviewed before significant funding is expended.<sup>11</sup> A risk assessment that incorporates consideration of new risks from Recovery Act funds, would allow DPI to identify those LEAs most at risk for mismanagement of the funds.

While the fiscal monitors' visits are determined by the Title I program, a DPI official reported that the scope of the fiscal reviews conducted by the fiscal monitors goes beyond the scope of the ESEA Title I office's protocol, which focuses on programmatic aspects of ESEA Title I. DPI's fiscal monitoring checklist indicates that DPI staff review the following to ensure compliance with state and federal requirements:

- documentation certifying time and effort for employees paid with federal funds,
- maintenance of records for equipment purchased with federal funds, and
- staff knowledge about written policies and procedures to ensure proper internal controls are in place. A DPI official said that monitors interview key LEA staff to ascertain their familiarity with these policies.

After conducting fiscal monitoring visits, DPI issues a written report to LEAs with observations and any recommendations for further action. DPI officials reported that their ability to conduct the on-site fiscal monitoring

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<sup>10</sup>State of North Carolina Office of the State Auditor. *Department of Public Instruction: Statewide Federal Compliance Audit Procedures for the Year Ended June 30, 2009* (North Carolina: Office of the State Auditor), 8-9.

<sup>11</sup>GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: Apr. 23, 2009).

visits to LEAs had been limited because DPI's fiscal monitoring office had only one staff member assigned to do on-site monitoring until it hired a second person in February 2010.

As we reported in December 2009, DPI developed a plan to monitor SFSF education stabilization funds.<sup>12</sup> DPI's written monitoring plan for SFSF funds incorporates all of the state's existing electronic monitoring and desk audits conducted for all LEAs. In addition, DPI officials said that in October 2009 they began to conduct monthly comparisons of LEA budgets and monthly SFSF expenditures for approximately 30 LEAs. Specifically, officials said that each month DPI selects five LEAs based on the amount of funding, five LEAs based on risk factors such as single audit findings, and 20 LEAs at random. Additionally, DPI staff conducts on-site monitoring of SFSF funds during their visits to monitor the use of other federal funds.

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### LEA Weaknesses in Monitoring Use of Federal Education Funds Highlight Opportunities for North Carolina to Enhance Its Monitoring Efforts

We visited two LEAs—Winston-Salem/Forsyth County Schools (WSFCS) and Avery County Schools (ACS)—to review Recovery Act spending and how the LEAs were ensuring appropriate use of the funds. Specifically, we reviewed Recovery Act expenditures for SFSF, ESEA Title I, and IDEA Part B and the supporting documentation, including contracts, associated with these expenditures.<sup>13</sup> We chose WSFCS because of its sizable allocation of Recovery Act funds and multiple Single Audit findings regarding its use of federal funds. We chose Avery County Schools because it had received a monitoring visit from DPI. A comprehensive account of our findings in both LEAs is outlined in a letter to DPI.<sup>14</sup> Our findings in these LEAs highlight some opportunities for North Carolina to enhance its on-site monitoring protocol to address issues arising from LEA use of Recovery Act funds. Also, our findings indicate that North Carolina's monitoring efforts could benefit from reassessing LEA risks in light of additional risks resulting from Recovery Act funds. We have discussed our findings with DPI officials, and they told us they are taking actions to enhance their oversight of LEAs based on what we found.

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<sup>12</sup>GAO, *Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (North Carolina)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

<sup>13</sup>We did not review expenditures for salaries using SFSF in our visit to ACS.

<sup>14</sup>For each of the LEAs we visited, we referred a full account of our findings in a letter addressed to the State Superintendent of Public Instruction, with copies of the letter to the LEA superintendents and the U.S. Department of Education.

In February 2010, we visited WSFCS, the fifth-largest LEA in North Carolina and the recipient of the fifth largest Recovery Act education award in the state. WSFCS received about \$36 million in SFSF, ESEA Title I, and IDEA Part B Recovery Act funds. The district used these funds for salaries, equipment purchases, professional development for teachers, a summer youth program for students in ESEA Title I schools, and other purposes. According to DPI officials, WSFCS had not received an on-site fiscal monitoring visit since 2006—the first year of the current 5-year monitoring cycle. In our review of documentation supporting WSFCS's Recovery Act expenditures, we found that WSFCS expended \$38,400 of Recovery Act and non-Recovery Act ESEA Title I funds<sup>15</sup> for a 2009 summer program and that some of those funds may have been used to pay for entertainment expenses, a possibly unallowable use of the funds.<sup>16</sup> The program, operated by the Housing Authority of Winston-Salem, was designed to assist students in ESEA Title I schools retain educational gains over the summer months. Officials affiliated with the summer program told us that students spent approximately 3 hours, 4 days a week, on educational activities and one 8-hour day per week on academic field trips that included trips to science centers, planetariums, and colleges. However, in our review of documents held by the Housing Authority of Winston-Salem, we found evidence that the program also used ESEA Title I, Part A funds to pay for non-academic field trip-related expenses, including tickets for movies, a water park, fast food, and other potentially unallowable expenses. For example, field trips for students included a trip to the movie theatre to see Ice Age and Terminator for a total of \$405.50, and a trip to a water park for \$961.23 (including food and locker rentals). WSFCS officials told us that, to their knowledge, district staff did not monitor the summer program but said that they related their expectations for how funds were to be used to the housing authority officials implementing the program. After learning about the potentially unallowable expenses through our visit, WSFCS officials told us that they had submitted a request to the state to reprogram the \$38,400 used from their ESEA Title I accounts (Recovery Act and non-Recovery Act) to their local fund. A DPI official said that reprogramming the funds would be one

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<sup>15</sup>Of those funds, \$6,400 were Recovery Act ESEA Title I funds and \$32,000 were regular ESEA Title I funds.

<sup>16</sup>See 34 C.F.R. § 80.22(b), citing OMB Circular No. A-87. OMB Circular No. A-87 states that the costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

aspect of a solution the state would review, but that they would also consider the extent to which an LEA has implemented controls to prevent similar situations from occurring in the future.

We also visited Avery County Schools (ACS) in February 2010; it was one of two LEAs that had received a 2009-2010 on-site fiscal monitoring visit from DPI as of December 2009. ACS received about \$1.5 million in SFSF, ESEA Title I, and IDEA Part B Recovery Act funds. ACS officials reported that the district spent the funds for salaries, purchases of equipment, and professional development for teachers. For the district's small purchases of equipment, we found, and ACS officials agreed that the district did not conduct price or cost analyses for some purchases, document that they had obtained multiple bids or price quotes, or document reasons for entering into noncompetitive contracts. ACS officials said that they are using their district's existing policies and procedures for purchases using Recovery Act funds, but also acknowledged that, for at least one of their contracts, they were out of compliance with the district's policy regarding the requirement to obtain multiple bids for expenditures over \$10,000. ACS officials said that the district's expenditure requirement of \$10,000 exceeded the state's requirement and that after our visit, the district revised the local policy so that it is consistent with the state requirement. DPI's fiscal monitor reviewed two ACS Recovery Act purchases totaling \$104,738.98, and reported that the invoices included sufficient detail to show that services were rendered. The report also noted that the procurement official did not have a clear understanding of written procurement requirements.

Our initial observation regarding procurement in the two LEAs was that the districts did not maintain documentation showing competition, supporting decisions on competitive and non-competitive contracts, or having conducted price or cost analyses. A senior finance administrator with DPI said that in response to our initial observations, the fiscal on-site monitoring visits would be expanded to include a more robust review of LEA purchases. Specifically, according to a DPI official responsible for LEA monitoring, DPI's fiscal monitors have changed their review to interview LEA finance staff regarding their written policies for procurement and ask these staff to guide them through the LEA's procedures (written and unwritten) on procurement. This official said that the interviews would allow the monitors to assess internal controls on procurement and ensure that the LEAs are following their own procurement policies and procedures. This DPI official also reported that monitors request documentation of multiple bids or price quotes for Recovery Act purchases to ensure compliance with new state

requirements for Recovery Act purchases. However, DPI officials reported that the department does not review whether LEAs have documentation required by the state to support the type of procurement or whether or not a price or cost analyses was conducted.

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**North Carolina's DPI  
Expands LEA Reviews to  
Ensure Compliance with  
State Procurement  
Directive for Recovery Act  
Purchases**

In May 2009, according to state officials, North Carolina's Office of Economic Recovery and Investment (OERI) issued a directive regarding the use of Recovery Act funds for procurements of goods and services. According to state officials, this directive states that recipients of Recovery Act funds are required to advertise contracts for \$5,000 or more and obtain multiple bids or price quotes for Recovery Act procurements, among other things.<sup>17</sup> At the time of our LEA visits, WSFCS and ACS reported that they were not yet in compliance with OERI's directive. DPI officials told us that a review of LEA compliance with the state procurement directive was not, at that time, a part of their fiscal monitoring protocol. However, DPI has subsequently added a review of LEA compliance with some aspects of the OERI directive to its on-site visits.

OERI officials reported that in response to our observations regarding LEA compliance, they began to increase communication about the procurement directive among the state's LEAs through e-mail notices and announcements in statewide meetings with administrators. For example, in April 2010, OERI sent a letter to LEA superintendents and finance officers reminding them of the state directives for procurements with Recovery Act funds and the role DPI would take in ensuring compliance. Also, in response to our observations, OERI issued another management directive in April 2010 directing North Carolina's state agencies to ensure compliance with Recovery Act procurement requirements. According to state officials, this management directive requires state agencies to design an audit program for Recovery Act projects and contracts that includes regularly scheduled on-site visits and desk reviews. Further, in this audit program, state agencies are to check subrecipients' compliance with OERI's May 2009 directives. According to state officials, OERI's directive required an initial report on April 30, 2010, of state agencies' plans and a report every 30 days thereafter certifying that subrecipients used a competitive process for Recovery Act purchases. OERI also scheduled

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<sup>17</sup>OERI Directive 3 and 3(b) (May 2009 and January 2010) "Contract Provisions for the Procurement of Goods, Services, and Construction Projects Including Design Services and Internal Procurement Directives."

several technical assistance seminars around the state to provide guidance on complying with its directives. A DPI official said that the department plans to ask LEAs to self-report compliance with OERI's requirements and fiscal monitors will check the accuracy of these reports during on-site monitoring visits. However, DPI officials reported that OERI's additional monitoring requirements pose an administrative challenge to the department given its limited monitoring staff.

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## Some Efforts in North Carolina to Fully Meet SFSF Education Reform Assurances Depend on Additional Federal Funding

State officials said that some efforts in North Carolina to meet SFSF education reform assurances were under way prior to the state receiving Recovery Act funds. Additionally, these officials reported to us that most of the indicators and descriptors related to these reform assurances were also under way in the state prior to receiving funds.<sup>18</sup> However, state officials reported to us that Recovery Act funds have helped to expedite ongoing efforts and additional federal funding would help further expand their ongoing efforts, including efforts to collect data linked to the assurances. When we spoke with North Carolina officials in March 2010, they described a need for additional federal funding to expand efforts in teacher quality and to create state systems to collect teacher and principal performance data and track high school student enrollment in the state's institutions of higher education as required by Education. North Carolina's 2009 equity plan for highly qualified teachers states that North Carolina has a shortage of highly qualified teachers who are able to teach special education students. The plan attributes the shortage, in part, to a determination by Education that the test North Carolina used to qualify teachers was not sufficient for demonstrating mastery at the secondary level. State officials described wanting to use Race to the Top funds to expedite the statewide rollout of a pilot program to address this shortage.<sup>19</sup> Without additional federal funding, these officials said that while they would not dismantle the program, the statewide rollout will be much slower. State officials reported that they were also hoping to use Race to

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<sup>18</sup>The Recovery Act requires states receiving funds under the SFSF program to provide assurances in four key areas of education reform: (a) achieving equity in teacher distribution, (b) improving collection and use of data, (c) standards and assessments, and (d) supporting struggling schools. For each area of reform, the act prescribes specific actions for states to implement. Education established specific data and information collection and public reporting requirements (the assurance indicators and descriptors) that states receiving SFSF funds must meet with respect to these assurances.

<sup>19</sup>North Carolina was 1 of 16 state finalists for Education's competitive Race to the Top program; however, the state did not receive an award in the first round of funding.

the Top funds to implement a previously piloted, Web-based tracking system to collect performance data on teachers and principals. North Carolina's plan for this effort states that the system would cost North Carolina about \$6 million over 4 years. State officials said that without the additional federal funding, they would continue to meet this education reform goal but with a more limited system created by a state agency that would cost \$54,700.

North Carolina submitted an application in December 2009 to Education for a Statewide Longitudinal Data Systems Grant award to fund development of a statewide longitudinal data system that links high school data with data from institutions of higher education to allow the state to track the number of students who enroll in state institutions of higher education. This system, estimated to cost \$536,000, would build upon North Carolina's current pre-K-12 state longitudinal data system, which it created using a federal grant. State officials reported that they intend to use the funds to accelerate the establishment of the new portion of the system and thereby create a more streamlined system that allows the various educational sectors to share data and allows the integration of data from independent colleges. If North Carolina does not receive a Statewide Longitudinal Data Systems Grant award, state officials said that they will be unable to bring independent colleges into a unified system.<sup>20</sup>

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## Limited Time to Disburse Funds Cited as Potential Challenge to Implementation of ESEA Title I School Improvement Grants

Education approved North Carolina's Recovery Act ESEA Title I School Improvement Grant (SIG) application on April 6, 2010. States are expected to disburse the majority of SIG funds to LEAs for the 2010-2011 school year. DPI officials said that the limited amount of time to get the funds out to LEAs was the most significant challenge in implementing the grant. North Carolina's SIG application lists June 30 as the deadline for final approval of any LEAs receiving funds. DPI officials said that they distributed a draft LEA application and held webinars with LEAs and school administrators to mitigate the effect of the short period for making awards to LEAs. DPI officials reported that in order to ensure that LEAs and schools receiving SIG funds have sufficient technical assistance from the state they are reserving the permitted 5 percent of their SIG award for administration, evaluation, and monitoring. DPI officials said that these additional administrative funds reserved from their SIG grant are minimal

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<sup>20</sup>In May 2010, Education awarded Statewide Longitudinal Data Systems Grant awards funded under the Recovery Act to 20 states. North Carolina did not receive an award.

but would pay for the development of a teacher leadership program to train teacher-coaches. The teacher leadership program will provide professional development to teachers around the state who will serve as local resources to assist schools in implementing their intervention models.<sup>21</sup> DPI officials said that by investing in professional development they will create a sustainable cadre of coaches to assist schools after Recovery Act funds end.

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## North Carolina Uses Most of its SFSF Government Services Funds for State Salaries

North Carolina received about \$258 million in SFSF government services funds. Table 1 provides a description of the state's spending of these funds for fiscal years 2009 through 2012. North Carolina's largest single use of the funds, about \$150 million in fiscal year 2009, was payroll in the state's Department of Correction. In total, salaries for existing and new staff comprised about \$250 million (97 percent) of North Carolina's total government services funds allocation. About \$5 million of the funds will pay for a new budget system for the state and about \$2.3 million was or is scheduled to be spent on staff and other efforts related to monitoring. North Carolina's Office of State Budget and Management (OSBM) administers SFSF government services funds.

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<sup>21</sup>In order to receive SIG funding, an LEA must identify its persistently lowest-achieving schools and must show how it will use the funding to implement one of four intervention models for each of the schools. Generally, these are: (1) replace the principal, rehire no more than 50 percent of the staff, and adopt a new governance structure; (2) convert or close and reopen the school as a charter school or under an education management organization; (3) close the school and re-enroll students in other schools in the LEA that are higher achieving; or (4) implement several strategies, such as replacing the principal and implementing a rigorous staff evaluation and development system.

Table 1. North Carolina's Uses of SFSF Government Services Funds for Fiscal Years 2009 through 2012

	Funding amount	Fiscal year 2009	Fiscal year 2010	Fiscal year 2011	Fiscal year 2012
<b>Office of State Budget and Management</b>					
Information technology	\$428,570		X	X	X
Payroll for 4 new internal auditors	\$1,261,489		X	X	X
New budget system	\$5,170,453		X	X	X
OSMB Total	\$6,860,512				
<b>Office of Economic Recovery and Investment</b>					
Establishment of office (salaries and benefits)	\$1,968,136		X	X	
Monitoring and compliance	\$565,000		X	X	
Other	\$622,400		X	X	
OERI Total	\$2,389,246 <sup>a</sup>				
<b>Department of Administration</b>					
Payroll for three new contract compliance monitors	\$444,600		X	X	X
<b>Department of Correction</b>					
Payroll	\$176,574,356	X	X	X	
<b>Administrative Office of the Courts</b>					
Payroll	\$66,585,556	X			
<b>North Carolina Virtual Public School</b>					
Payroll	\$3,877,840		X		
<b>Total SFSF government services funds</b>	<b>\$256,732,110<sup>b</sup></b>				

Source: North Carolina Office of State Budget and Management.

<sup>a</sup>The total amount incorporates a reduction based on North Carolina's reservation of 0.3 percent of Recovery Act grants in the amount of \$766,290 for fiscal years 2009 and 2010.

<sup>b</sup>According to an OSBM official, the \$1.79 million remaining in North Carolina's total government services funds award is reflected in North Carolina's amended SFSF application and allocated for public safety. At the time of our review, this official noted that the funds had not yet been included in the budget.

OSBM officials reported that the administration of federal funds is a new responsibility for the agency. These officials reported that in order to ensure proper oversight of the state's use of government services funds, they reviewed the plans of other states, worked with OSBM internal auditors to design a monitoring protocol, and used government services funds to hire four temporary internal auditors. OSBM officials also said that the agency sent information to state agencies receiving SFSF government services funds to ensure that these agencies, as subrecipients, were aware of their responsibilities regarding the uses of the funds.

OSBM's written monitoring protocol describes a three-pronged process for its ongoing monitoring of government services funds. According to this plan, OSBM budget analysts will conduct monthly reviews of state agencies' budget and expenditure reports to verify that the budget and expenditures are recorded using the correct Recovery Act expenditure code(s), charged to the correct or authorized accounts, and recorded in the correct amounts. OSBM also reviews agencies' data for recipient reporting to ensure that the reported expenditures match the approved budget allocation and draw down amounts. Finally, OSBM's internal audit staff conduct periodic reviews of agencies' uses of government services funds. To ensure accurate accounting for recipient reports, five audits are scheduled to generally cover fiscal years 2009 through 2012, with the first audit having occurred in March 2010. OSBM's protocol includes selecting a sample of SFSF government services funds transactions to test for compliance with state and SFSF requirements and cash management policies and procedures, as well as testing the accuracy of performance data for a sample of subrecipients.

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## North Carolina Faces Challenges in Monitoring Subgrantees' Execution of the Weatherization Assistance Program, Despite Established Procedures

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes, to be spent by March 31, 2012. North Carolina's Department of Commerce (NCDOC) is the prime recipient for the federal Weatherization Assistance Program's Recovery Act funding. The goal of the program is to improve energy efficiency, increase household safety, and educate the public about maintaining energy efficiency. The program serves low-income individuals, with a focus on reaching the elderly, individuals with disabilities, families with children, and high energy users. Weatherization assistance is available for single-family homes, apartments, condominiums, and mobile homes. An applicant for weatherization assistance is not required to own the home for which the assistance is sought, but the applicant, if a renter, must have the landlord's permission for the weatherization work to be done.

NCDOC is responsible for developing the state's Weatherization assistance plan—currently covering April 1, 2009 through March 31, 2012—and for monitoring and overseeing its implementation. NCDOC provides funding to 28 subgrantees—22 community action agencies, 3 nonprofit organizations, and 3 local government units—that administer the program locally and provide weatherization services to all 100 North Carolina counties. As of March 31, 2010, the DOE had provided North Carolina 50 percent—approximately \$66 million—of its 3-year Weatherization

Assistance Program Recovery Act funding.<sup>22</sup> NCDOC retained \$13 million of these funds for program administration, training, and technical assistance for subgrantees, and awarded the remaining \$53 million to the 28 local subgrantees for weatherizing over 22,000 homes by March 31, 2012. Each subgrantee is required to submit an annual application that includes a description of the scope of the weatherization work it will perform, including the number of homes to be weatherized; an implementation schedule; and a detailed budget. In order to determine the number of homes to weatherize, North Carolina's Recovery Office established the average weatherization expenditure at \$4,000 per home, significantly less than the \$6,500 federal maximum per home average limit for weatherization. As of March 31, 2010, the subgrantees reported completing 1,715 units—about seven percent of the total homes identified for weatherization in the DOE-approved state plan. According to the NCDOC Weatherization Program Manager,<sup>23</sup> the agency recently received approval from the governor's office to use \$6,000 as the average per home limit for weatherization in North Carolina and plan to amend the state's weatherization assistance plan to reflect this change.

Subgrantees can use the weatherization funds for a variety of purposes, including educating clients in safety and energy efficiency; professionally evaluating homes for safety and energy efficiency; cleaning, evaluating and tuning heating and air conditioning systems; insulating attics, floors, and walls; making minor home repairs for health and safety reasons; installing smoke and carbon monoxide detectors; and identifying average energy usage and general heat waste. To identify weatherization measures a home needs, during the initial home assessment, energy auditors conduct an inspection, which generally includes a blower door test that reveals where air is escaping from a home. The final inspector performs a post weatherization test to determine the effectiveness of the measures taken.

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<sup>22</sup>After meeting reporting, oversight, and accountability milestones required by DOE, North Carolina will receive more than \$65 million in additional funding, for a total of more than \$131 million, to weatherize the number of homes in the DOE approved State Plan.

<sup>23</sup>This person manages day-to-day activities of the section including supervision of staff; coordination of scheduling of program and fiscal monitoring activities and ensuring that summaries of monitoring activities are shared with subgrantees; coordination of training and technical assistance activities for prime recipient staff and subgrantees; preparation of the State Plan and reports to state and federal agencies; promotion of the program and coordination with other low-income energy programs; and ensuring that the program operates in compliance with state and federal rules and regulations.

Figure 1 shows exterior and interior views of a blower door installed for home testing.

Figure 1 : Blower Door Set up



Outside view of blower door set-up



Inside view of blower door set-up

Source: GAO.

On the left is a photo of the outside view of the blower door set-up and the photo on the right is of an inside view of the blower set-up. A basic blower-door system includes three components: a calibrated fan, a door-panel system, and a device to measure fan flow and building pressure. The blower-door fan is temporarily sealed into an exterior doorway using the door-panel system. The fan is used to blow air into or out of the building, which creates a small pressure difference between inside and outside. This pressure difference forces air through all holes and penetrations in the building enclosure. The tighter the building (e.g. fewer holes), the less air is needed from the blower door fan to create a change in building pressure.

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## North Carolina Weatherization Officials Monitor Subgrantees' Use of Recovery Act Funds but Face Challenges Due to Staffing Levels

NCDOC officials have established several controls to ensure subgrantees' compliance with Recovery Act requirements. These controls include training and certification requirements for subgrantees, NCDOC monitoring visits that include reviews of subgrantees' client files, and periodic reports subgrantees are to submit to NCDOC via a comprehensive, Web-based system called Accountable Results for Community Action (AR4CA). NCDOC officials also do risk assessments of subgrantees and require subgrantees to obtain NCDOC approval of contractors who perform basic weatherization work, such as caulking, duct sealing, and installing insulation. In addition, subgrantees that weatherize homes using their own employees or contractors must have their work inspected by an inspector who was not involved in performing the work. Further, while the DOE requires comprehensive monitoring of 5 percent of the units completed during the year, NCDOC plans to monitor 20 percent. Based on NCDOC's current projections, 15,350 units will be completed during fiscal year 2010, meaning that NCDOC will have to monitor about 768 units to be compliant with the federal DOE requirement and 3,070 units to reach its 20 percent goal. However, as of March 31, 2010, the NCDOC Weatherization Program Manager said his office had only monitored 11 units weatherized by subgrantees under the Recovery Act. As of March 31, 2010, NCDOC had four staff members who are responsible for subgrantee monitoring as well as subgrantee application and budget reviews, and for conducting training and technical assistance appropriate to the subgrantees' level of performance. To meet the monitoring requirement, NCDOC officials stated four additional monitoring staff members are needed and, at the time of our visit, were interviewing to hire those individuals.

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## Subgrantees Also Report Challenges

Subgrantees reported that NCDOC's slow funds allocation and reimbursement created<sup>24</sup> challenges for them and could negatively impact their future allocations. Officials at one subgrantee we visited, reported that prior to receiving Recovery Act funds the subgrantee had to use its own funds to acquire two vehicles needed for expanded weatherization work. Officials at another subgrantee reported the subgrantee had to secure a \$500,000 line of credit, which it used twice in February 2010 due to slow reimbursement by the state. The director of this subgrantee said it

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<sup>24</sup>Repayment for funds expended by subgrantees to weatherize homes, including paying contractors for work performed. Advance payments provide funds to subgrantees to cover cost of anticipated homes to be weatherized.

was able to secure the credit line using the subgrantee's "good name" in the community as collateral and pointed out that it was not clear how subgrantees without this resource would pay their expenses while waiting for state reimbursement. In addition, subgrantees that do not meet production goals may receive smaller allocations in the future.<sup>25</sup> NCDOC officials said that in addition to receiving smaller allocations, such subgrantees may be barred from receiving advance payments, which could equal up to one-half of total contract costs, and may be put in reimbursement status whereby they would only receive funds after they had completed weatherizing homes. NCDOC officials said that subgrantees not meeting production goals may also face additional reporting requirements, such as more frequent progress reports.

## Requirements for Transit Infrastructure Project Were Not Monitored or Enforced

The Federal Transit Administration (FTA) has apportioned \$33.1 million in Transit Capital Assistance Funds for nonurbanized areas in North Carolina.<sup>26</sup> The North Carolina Department of Transportation (NCDOT) is the primary recipient of those funds and is responsible for allocating and distributing those funds to individual transit agencies in nonurbanized areas. NCDOT is using about \$9.1 million of those dollars to fund 8 transit infrastructure construction projects. Only one of those projects—the AppalCART transit facility—had begun the construction process as of April 1, 2010. This project, which we previously reported on in December 2009,<sup>27</sup> is a new office and maintenance facility for AppalCART, the transportation authority serving all of Watauga County in North Carolina. AppalCART was able to quickly utilize these funds because it had already completed a prequalification process for eligible bidders and it had designed the project before the Recovery Act went into effect on February 17, 2009. AppalCART officials told us that, in anticipation of receiving Recovery Act grant funds, AppalCART advertised for bids on February 18,

<sup>25</sup>According to the approved state plan, this would allow the state to give additional allocations to other subgrantees in order to meet the state's total number of weatherized units.

<sup>26</sup>The FTA apportioned Recovery Act funds to states for nonurbanized areas under the Transit Capital Assistance Program's formula grant programs using the program's existing formula. Transit Capital Assistance Program funds may be used for such activities as vehicle replacements, facilities renovation or construction, preventive maintenance, and paratransit services. Nonurbanized areas are areas encompassing a population of fewer than 50,000 people.

<sup>27</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Appendixes)* [GAO-10-232SP](#) Washington, D.C.: December 2009.

2009, opened bids on March 12, 2009, signed a contract with the contractor on May 29, 2009, and began work in June of 2009.<sup>28</sup>

In our review of the AppalCART project, we found that Recovery Act and federal-aid contracting requirements were included in the bid and contract documents, but not all of the requirements were being enforced or monitored. NCDOT officials told us they assisted AppalCART in the bidding and award process and provided contract provisions to make sure federal and Recovery Act requirements were included in the bid documents and contract. Our review showed, and NCDOT officials confirmed, that the Buy American and minimum prevailing wage provisions required by the Recovery Act were included in the contract, and NCDOT officials told us that while the bid documents did not include specific Recovery Act requirements—because they were created before the FTA published Recovery Act guidance in the Federal Register—they did include the customary FTA procurement requirements for Buy America and prevailing wages.<sup>29</sup> However, we found, and AppalCART officials confirmed, that the Buy America requirements were not being enforced. Specifically, neither AppalCART nor NCDOT had made any checks to ensure that the steel being used on the project met the Buy America requirements. In addition, neither had checked to ensure that workers were being paid at least the minimum prevailing wages, as required. Specifically we found, and NCDOT and AppalCART officials confirmed, the following:

- Prior to our review, NCDOT and AppalCART had not been checking to see if the steel being used on the project met the Buy America requirements included in the contract. Steel certifications sent to us by AppalCART for the project indicated, and the structural steel vendor verified, that some of the steel erected on the site was made in Canada.

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<sup>28</sup>A grant agreement between NCDOT and AppalCART for Recovery Act funding was executed on January 26, 2010.

<sup>29</sup>The Buy American provision of the Recovery Act prohibits, with certain exceptions, the use of Recovery Act funds “for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States.” Recovery Act, div. A, § 1605. 123 Stat. 303. DOT has stated that, since Title XII of the Recovery Act provides that funds made available under that act for transit projects are subject to applicable 49 U.S.C. chapter 53 requirements, it is enforcing these provisions in accordance with its existing Buy America requirements, as contained in 49 U.S.C. chapter 53 and FTA’s implementing regulation at 49 C.F.R. Part 661.

- Even though an official for the project's contractor had certified in its bid documents that the firm would meet the Buy America requirements, an official of the contractor's structural steel vendor stated the steel vendor was not aware of the Buy America requirements, and the firm had used some steel for the project the origin of which was not tracked. As a result, the official of the steel vendor stated he could not verify for some of the steel used, whether or not it was made in the United States.
- The Recovery Act also requires, and the contract called for, the contractor's and subcontractor's workers to be paid at least prevailing wages as determined by the Secretary of Labor in accordance with subchapter IV of chapter 31 of title 40, United States Code. However, AppalCART officials had not seen the minimum wage rates until after our inquiry and both NCDOT and AppalCART had not, prior to our review, made inquiries to the contractor, subcontractors, or workers if they were being paid in accordance with the act.
- NCDOT had not developed written guidance regarding how the nonurbanized area transit agencies should provide oversight of the Buy America or prevailing wage requirements for the projects.<sup>30</sup>

NCDOT officials told us since our review that they developed and provided to AppalCART a "materials received report" for the transit agency to use in documenting current and future payment requests, to show that the materials meet the Buy America requirements. In addition, since our review, they have utilized an audit program developed by NCDOT's External Audit Branch to examine AppalCART's compliance with Recovery Act requirements which identified several areas of needed monitoring and oversight improvement including prevailing wage verification, Buy America verification of materials, change order approval process, and inclusion of Recovery Act special provisions in all subcontractor agreements. FTA officials told us that they rely on contractors and FTA grantees to perform due diligence in complying with the Buy America requirement, and while the contractor is responsible for certifying compliance, or non-compliance, the grantee is responsible for assessing the validity of the certification, and that FTA can investigate

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<sup>30</sup>NCDOT officials told us they did not already have written guidance in place for non-Recovery Act federally funded transit infrastructure construction projects, because it had not used federal funds for these types of projects in at least 20 years.

compliance when petitioned. FTA officials told us they also conduct some oversight reviews to assess the practices of their grantees.

NCDOT and AppalCART officials had plans to provide oversight of the project, but both agencies had challenges providing that oversight. As we reported in December 2009, NCDOT officials told us that their oversight for their nonurbanized area projects would generally include periodic site visits, reviewing and approving key steps in the contracting process, review of contract documentation, progress reviews, assistance on project management, and assistance on Recovery Act reporting requirements. NCDOT officials told us that despite a shortage of staff, they had plans to provide oversight of the project through an existing services agreement for engineering services with a private firm. However, NCDOT was unable to move forward with this service agreement due to a North Carolina Office of Economic Recovery and Investment (OERI) management directive issued in January 2010, which clarified that state agencies are prohibited from utilizing existing agreements of this type for Recovery Act work because they want to ensure that the goods and services are competitively procured, and that the existing agreements met the Recovery Act requirements. NCDOT officials told us OERI gave them permission to use an existing limited services contract, 2 months later, in March 2010. As of May 17, 2010, the NCDOT was still developing the scope of the engineering services agreement with the private firm, based on the audit tool they have developed for Recovery Act projects, but expected to give the firm a notice to proceed as early as May 28, 2010. AppalCART also faced challenges providing oversight. For example, an AppalCART official told us that its project manager had left December 31, 2009, leaving them without a project manager until they recruited a new project manager, who began May 1, 2010.

NCDOT and AppalCART have had additional challenges resulting in AppalCART not being reimbursed for the work completed to date and incurring unplanned interest costs as a result. A NCDOT official told us that it informed AppalCART, prior to AppalCART putting the project out for bids that before AppalCART could get reimbursed for eligible project costs, FTA had to award the grant to NCDOT, and then a grant agreement between NCDOT and AppalCART had to be in place. NCDOT officials told us that after the FTA awarded the grant on August 24, 2009, it took them until January 26, 2010, to write the agreement and get it executed, because the State had to incorporate the Recovery Act requirements into their agreement and there was an error in the period of performance which needed to be corrected. Once executed, AppalCART should have been able to begin requesting reimbursement. However, in our meeting with

NCDOT officials on April 1, 2010, they discovered the period of performance error still existed in the AppalCART grant agreement and an amendment would have to be made before NCDOT could reimburse AppalCART for the period from June 2009 through July 31, 2009. AppalCART officials told us they had been working with NCDOT to provide invoices for reimbursement in a format that NCDOT would accept, but are unclear if invoices submitted to date are acceptable yet. NCDOT officials told us that not all of the processes for funds reimbursement and project management were in place when they were needed because they had not constructed a nonurbanized area, federally funded transit infrastructure project in over 20 years, which required them to develop some new processes. While NCDOT was developing new processes, AppalCART proceeded with construction, providing jobs, and paying the contractor over \$712,000. As a result of not being reimbursed, AppalCART needed to acquire a bank line of credit to pay the contractor for a portion of completed work. As of March 2010, AppalCART officials reported paying almost \$2,000 a month in loan interest costs.

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## North Carolina Has Made Progress in Using Recovery Act Funds to Increase Training to Dislocated Workers

North Carolina was allotted about \$44.4 million in Workforce Investment Act (WIA) Dislocated Worker Program funds under the Recovery Act. According to state officials, local workforce investment boards have used Recovery Act funds to significantly increase the number of dislocated workers enrolled in training. While local areas primarily relied on the same type of training used under WIA, one of the two local areas we visited, Charlotte-Mecklenburg, used the new flexibility allowed under the Recovery Act to contract with institutions of higher education for some group training.

North Carolina received WIA dislocated worker funds under the Recovery Act through the same statutory formula used to distribute regular WIA Dislocated Worker Program funds. The Division of Workforce Development in North Carolina's Department of Commerce administers this program and distributed 60 percent of its allotment to 24 local workforce boards. The state set aside the remaining funds for rapid response activities to address layoffs and plant closings, and other statewide activities. As of March 31, 2010, the state had drawn down at

least 37 percent (\$16.4 million) of its Recovery Act funds.<sup>31</sup> In the two local areas we visited, Lumber River has fully committed—expended or obligated—its Recovery Act allocation for the WIA Dislocated Worker Program and Charlotte-Mecklenburg has committed 93 percent of its allocation (see table 2).<sup>32</sup>

**Table 2. Selected Local Workforce Investment Areas Commitment of Recovery Act WIA Dislocated Worker Program Funds as of January 31, 2010**

Workforce Investment Area	Total allocation	Expended	Obligated	Percent obligated and expended
Charlotte-Mecklenburg	\$1,681,622	\$773,992	\$794,858	93
Lumber River	\$ 862,402	\$281,187	\$581,215	100

Source: GAO analysis of Charlotte-Mecklenburg Workforce Development Board and Lumber River Workforce Development Board data.

With the combination of Recovery Act funds and increased demand for services, the number of dislocated workers trained in the state between July 1, 2009, and December 30, 2009, was 38 percent higher than in the corresponding period in the previous year, according to our state survey. The state reported that from the date it began using Recovery Act funds through January 31, 2010, about 10,568 dislocated workers in North Carolina received training through Recovery Act or regular WIA dislocated worker funds. As shown in Table 3, both of the local workforce areas we visited had over a 300 percent increase in the number of dislocated workers who participated in training compared to participation during the same period in the prior year. Despite these significant increases in participants receiving training, Lumber River officials told us that some dislocated workers in this largely rural area were not interested in training

<sup>31</sup>These are cash drawdowns from the U.S. Department of Health and Human Services' Payment Management System. This system disburses grant funds to over 41 federal agencies, bureaus, and grant awarding offices, including the Department of Labor. Under the procedures for using these funds, funds are to be drawn down no more than 3 days in advance of paying bills. According to Labor, drawdown data for March 2010 may be significantly understated as a result of complications with the transition to a new accounting system. Labor is taking steps to correct these issues and expects to release accurate data by the end of May 2010.

<sup>32</sup>Expenditures represent actual cash disbursements or outlays, while obligations represent financial commitments made by states or local areas for which payment has not yet been made. For example, an obligation would be incurred when a state or local area enters into a commitment or contract with a service provider for training, but training has not yet been completed or the service provider has not yet been paid.

because they would prefer a job instead. To encourage participation in training, Lumber River promoted short-term courses such as computer literacy courses and occupational classes such as welding. However, these efforts were not fully successful in recruiting those individuals mainly interested in jobs. A state workforce development official told us that North Carolina is working toward preparing a workforce for growth in the green economy, but there are not sufficient training opportunities or jobs available to motivate workers to invest in training for green jobs.

**Table 3: Number of WIA Dislocated Workers Who Participated in Training July 1, 2008, to December 31, 2008, Compared to Those Who Participated in Training July 1, 2009, to December 31, 2009**

Local workforce investment area	WIA dislocated workers who participated in training 7/1/08 to 12/31/08	WIA dislocated workers who participated in training 7/1/09 to 12/31/09	Percent increase
Charlotte-Mecklenburg	122	571	368
Lumber River	57	245	330

Source: GAO analysis of Charlotte-Mecklenburg Workforce Development Board and Lumber River Workforce Development Board data.

State officials said that the Recovery Act funds were primarily being used for individual training accounts (ITA), which individuals use to purchase training through, for example, community colleges and community based organizations. Lumber River reported that all of its Recovery Act funds devoted to dislocated worker training are being used for ITAs. While Charlotte-Mecklenburg is using 83 percent of its Recovery Act dislocated worker training funds for ITAs, it is also using 17 percent to contract directly with institutions of higher education for group classes. Dislocated Worker funds provided through the Recovery Act may be used to provide training through contracts, which are authorized only in limited circumstances for regular WIA funds. Although the U.S. Department of Labor encouraged states and local areas to use Recovery Act funds to provide training for green jobs, both Lumber River and Charlotte-Mecklenburg officials said that there has been little opportunity to do this because few green jobs are available at this time. The Lumber River Workforce Development Board Administrator told us North Carolina developed the JobsNow 12 in 6 Program, which coupled short-term occupational skills training with a career readiness certificate program. Lumber River, this official said, promoted recruitment of dislocated workers into this program but said these efforts were not fully successful because the individuals were more interested in working than attending training.

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## North Carolina Clean Water and Drinking Water State Revolving Funds

The North Carolina Department of Environment and Natural Resources (DENR) administers the state's Clean Water State Revolving Fund (SRF) and its Drinking Water SRF and is responsible for providing loans from the two revolving funds to North Carolina localities and overseeing usage of the loan funds. The Clean Water SRF provides funds for the construction of publicly owned wastewater treatment facilities, implementation and management of non point source pollution control programs,<sup>33</sup> and development and implementation of estuary conservation and management plans. The Drinking Water SRF provides funds for the construction or upgrade of wells and intakes, water treatment plants, storage, and water lines; eligible uses include replacement of aging infrastructure and consolidation of water systems. North Carolina received approximately \$71 million in Recovery Act funds for its Clean Water SRF and approximately \$66 million for its Drinking Water SRF. Under the Recovery Act, states were to give priority to projects that were ready to proceed to construction within 12 months of enactment of the act. As of mid-April 2010, North Carolina's Clean Water SRF and Drinking Water SRF used almost \$132 million in Recovery Act funds to provide assistance for 129 projects.<sup>34</sup> These projects include construction of wastewater infrastructure, local government planning for improving water quality, and restoring beaches and waterways. We interviewed and reviewed documents from DENR program officials and officials at two local projects—the Charlotte Muddy Creek/Campbell Creek Clean Water SRF project and the Perquimans Winfall Water Treatment Plant Drinking Water SRF project. We selected one urban and one rural project, both of which received a large amount of Recovery Act loan funds. Charlotte's Muddy Creek/Campbell Creek Project was awarded adjusted loan funds in the amount of \$1.57 million which helped the state address the Recovery Act's green reserve requirement. The Perquimans Winfall Water Treatment

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<sup>33</sup>Non point source pollution is generally caused by rainfall or snowmelt moving over and through the ground. Non point source pollutants could include excess fertilizers, herbicides, and insecticides from agricultural lands and residential areas; oil or grease from urban runoff; sediment from improperly managed construction sites and forests; and bacteria and nutrients from livestock.

<sup>34</sup>DENR awarded half of its Recovery Act funds in the form of principal forgiveness and the other half in the form of interest-free loans. Principal forgiveness means that half of each loan will not need to be repaid. The other half of the loan will need to be repaid at a zero percent interest rate. If a project's actual cost is lower than originally projected or the scope of the project is reduced, the same 50-50 split will be maintained. DENR program officials said that there is a cap of \$3 million for each project award and approximately \$1.7 million is expected to be repaid to the funds annually for 20 years. This money will be made available for other eligible projects, according to department officials.

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Plant Project, located in a rural location, was awarded \$3 million in funds in July 2009 and serves a community in need of drinking water infrastructure improvements.

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### State Officials Report Minimal Challenges in Meeting Recovery Act Requirements

DENR program officials told us that they have met all Recovery Act requirements for use of funds with minimal challenges, including meeting the February 17, 2010, deadline for projects to be under contract, despite the increased workload of processing approximately 250 Clean Water SRF applications and 600 Drinking Water SRF applications in 2009.<sup>35</sup> Clean Water SRF program officials told us that the only challenge to date occurred when green reserve requirement applicants failed to obtain easements prior to requesting loan approval.<sup>36</sup> However, DENR program officials reported that this problem was quickly resolved and the easements were obtained or other green projects on the priority list were funded.

The Drinking Water SRF program manager reported that the primary challenge in meeting the February 2010 contractual deadline was late or insufficient guidance from the U.S. Environmental Protection Agency (EPA) and U.S. Department of Labor (Labor). This late guidance pertained to the green reserve requirement as well as the Buy American<sup>37</sup> and Davis-

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<sup>35</sup>In 2008, prior to passage of the Recovery Act, 10 localities applied for Clean Water SRF loans and 15 applied for Drinking Water SRF loans. DENR officials told us the large increase in the number of applicants was because of Recovery Act funding.

<sup>36</sup>According to state officials, easements are defined in several ways, including the granting of permission for a locality to run water or drainage pipes through private property. For green projects, program officers said that often an easement is granted when a landowner donates a tract of property for conservation purposes.

<sup>37</sup>The Recovery Act's Buy American provision generally requires that iron, steel, or manufactured goods used on a public building or public work must be produced in the United States, subject to limited exceptions. Federal agencies may issue waivers for certain projects under specified conditions, for example, if using American-made goods is inconsistent with the public interest or the cost of those goods is unreasonable. The act limits the "unreasonable cost" exception to those instances when inclusion of American made iron, steel, or other manufactured goods increase the overall project cost by more than 25 percent. Agencies also need not use American made goods if they are not sufficiently available or of satisfactory quality.

Bacon<sup>38</sup> provisions of the Recovery Act. Guidance concerning the latter two requirements, which call for language to be inserted into contracts and for subrecipients and contractors to ensure compliance, arrived late in the contractual process and were difficult to explain to subrecipients, according to DENR program officials. Some officials said that Davis-Bacon requirements were complicated. The Drinking Water Program Manager noted that since all applicants are anticipated to pay locally prevailing wages without this requirement, the mandate to ensure compliance through documentation and tracking is resulting in unnecessary costs that will not add to the value of the completed project. Project officials and the County Manager we interviewed praised state officials for their assistance and guidance with the implementation of requirements. These officials told us the information was provided via telephone calls, the DENR Web site, and during onsite monitoring.

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**North Carolina Clean Water SRF and Drinking Water SRF Status**

DENR has used approximately \$67.9 million in Recovery Act funds for 56 Clean Water SRF projects, and approximately \$64 million in Recovery Act funds for Drinking Water SRF projects. DENR program officials reported that contracts for initial Clean Water SRF awards were \$10.5 million less costly than expected, based on local cost estimates. As a result, DENR program officials said they used these funds as allowed under the Recovery Act to finance 5 additional clean water infrastructure projects and augment loan amounts given at the same financial terms for two additional clean water infrastructure projects.<sup>39</sup> DENR program officials also reported that as additional Recovery Act funds for the North Carolina Clean Water SRF and Drinking Water SRF funds become available, other Recovery Act compliant projects will be funded in priority order.

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**GAO Visited Two Local Government Projects**

Charlotte project officials told us they received \$1.57 million in Recovery Act funds and all of these funds were spent on environmental upgrades to restore Muddy Creek/Campbell Creek—a green reserve requirement

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<sup>38</sup>Under the Recovery Act's Davis-Bacon provision, subrecipients of Recovery Act funds must pay at least the prevailing wages established by the Secretary of Labor for their area. The Recovery Act's Davis-Bacon provision requires all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by the act to be paid wages at rates not less than those prevailing on projects of a similar character in the locality.

<sup>39</sup>Bids came in 20 to 40 percent lower than estimated. North Carolina commits to program funding before bids are solicited.

eligible project. This project reduces pollutants from storm water and enhances and creates a wetland and river bank habitat. The officials told us the project was a prime candidate for Recovery Act funding because its engineering tests were complete and it was ready to proceed to construction. They further told us that Recovery Act funds allowed local funds previously dedicated to this project to be freed up for other green programs that had not been prioritized as high as the Muddy Creek/Campbell Creek Project.

Perquimans County received \$3 million in Recovery Act funds to upgrade the Winfall Water Treatment Plant. This project includes upgrading the current water system to improve both the county's water quality and appearance. According to the Perquimans County Manager, this project was the number one priority for Perquimans County but had never been submitted to the Drinking Water program before for consideration. In the absence of Recovery Act funds, local officials said that user rates would have been insufficient to cover the cost of the infrastructure upgrade. According to the Perquimans County official, with Recovery Act funding these fees are not expected to rise.

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## Review of Local Governments Receiving Recovery Act Funding

As we have in developing prior bi-monthly reports, we visited local governments in selected rural and urban areas of the state to learn about the use of Recovery Act funds and their impact. Specifically, we visited Bladen County, the City of Durham, Halifax County, and the City of Jacksonville. We selected these localities based on variation in unemployment rate, population size, and geographic location (see table 4). This was our second visit to the City of Durham and Halifax County in an effort to provide a more detailed account of Recovery fund usage in those localities. Based on U.S. Census estimates, the population in the four localities ranges from 32,343 to 223,284. With budget cycles starting on July 1st and ending June 30th, the localities' budgets range from \$36 million to \$346 million. We interviewed officials in these cities and counties to obtain their perspectives on the Recovery Act. We also interviewed officials from the North Carolina League of Municipalities (NCLM)<sup>40</sup> to discuss their interactions with localities across the state pertaining to the Recovery Act.

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<sup>40</sup>NCLM is a nonpartisan association of municipalities in North Carolina. NCLM provides member services designed to strengthen and support municipal governing processes at the local, state, and federal levels.

**Table 4: Statistical Data on North Carolina Localities Visited**

Locality	Population	Locality type	Unemployment rate	Budget	Total Recovery Act funds <sup>a</sup>
<b>North Carolina</b>	<b>9,222,414</b>	<b>State</b>	<b>10.9%</b>	<b>\$19 billion</b>	<b>\$5.1 billion</b>
Bladen County	32,343	County	12.2	38.4 million	734,227
City of Durham	223,284	City	7.4	345.6 million	8.9 million
Halifax County	54,582	County	13.2	36.4 million	517,271
City of Jacksonville	76,233	City	8.5	89.5 million	\$5.6 million

Source: GAO analysis of Bureau of Labor Statistics, U.S. Census, selected local government budgets, and Recovery.gov data

<sup>a</sup>Based on Recovery Act funds reported to North Carolina’s Office of Economic Recovery and Investment as of May 4, 2010.

**Local Officials said that Recovery Act Funds Helped but Did Not Stabilize Their Budgets**

The localities used the Recovery Act funds to support a variety of initiatives. Although their budgets differed in terms of stability, officials in all four localities told us that the Recovery Act funds they received helped to start, continue, or speed up a variety of programs and projects in their jurisdictions. For example, the City of Durham received \$2.1 million in Energy Efficiency and Conservation Block Grant funds. Durham officials told us that they will use about one-half of these funds to improve energy efficiency in city facilities and the other half will be used to start up a neighborhood-based, residential energy efficiency upgrade program. According to the officials, these upgrades will include increased insulation, sealing air ducts, plugging air leaks in attics and crawlspaces, and installing programmable thermostats. A \$1.5 million Federal Transit Administration formula grant will be used by the City of Jacksonville to purchase five replacement buses; procure a design and commence construction of a bus-washing facility; and purchase and install automated passenger counters. Bladen County will use \$24.6 million in Recovery Zone Facility Bonds, under the Recovery Act, toward the development of a water treatment plant<sup>41</sup>. Officials from all of these localities indicated that these projects and programs would not have been initiated had they not received Recovery Act funding.

<sup>41</sup>Created by the Recovery Act, Recovery Zone Facility Bonds are tax-exempt private activity bonds that states and localities may, in general, use to finance certain recovery zone property. The recovery zone property must generally be used within designated recovery zones which can include areas having significant unemployment, rate of home foreclosures, or general distress. Recovery Act, § 1401(a), 123 Stat. 350–351

While the officials we interviewed told us that the Recovery Act funds were helpful in starting and advancing programs and projects in their localities, most indicated that the funds were not enough to affect their government's fiscal stability. For example, Bladen and Halifax County officials indicated that, despite the Recovery Act funds, their fiscal situations continue to decline. The officials told us that they continue to face difficult budget decisions in the wake of declining property and sales tax revenues. Halifax County officials told us that, in December 2009, county departments were asked to reduce their budgets by as much as 10 percent, which did not result in any layoffs but many employees' work hours were reduced from full-time to part-time. The officials said that the county is "dangerously close" to making noticeable and potentially harmful cuts in services. City of Jacksonville officials reported that receipt of Recovery Act funding had only a moderate impact on their budget because the economy in their area of the state has been generally stable when compared to other regions of the state and country, due to the presence of two large and growing military installations in close proximity to the city. As a result, Jacksonville officials did not view Recovery Act funds as a means to stabilize their budget, but to accelerate or expand planned projects.

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### Officials Reported Usage of a Variety of Recovery Act Funds Based on the Needs and Priorities of Their Localities

Officials in the four localities that we interviewed chose to focus their Recovery Act dollars on different priorities based on the needs in their respective jurisdictions. Both Bladen and Halifax officials told us that the Recovery Act funds supplemented existing programs and allowed them to either serve more residents or enhance program services. Both county officials also told us that their plan was to not use the funding they received from the Recovery Act on programs and projects that would require recurring expenses so that their citizens would not be adversely affected when the funds were no longer available. For example, at the time of our visit, Halifax officials reported that the county had received a total of \$517,271 in Recovery Act funding through state and federal sources. The county plans to spend nearly 90 percent of those funds on boosting social services programs for children and the elderly, including day care provisions and its Meals on Wheels program. Similarly, Bladen officials told us that their county has a high population of senior citizens and plans to spend a significant portion of its Recovery Act funding on social services, which includes a portion of its Recovery Act funding for programs geared toward assisting its aging residents. According to officials from both counties, these programs will receive a one-time infusion of Recovery Act funding designed to supplement existing programs and allow them to either serve more residents or enhance

program services for a limited period of time. Conversely, the City of Jacksonville, located in close proximity to two military installations and cited as one of the youngest cities in the United States with an average age of 22.9 years, will spend 100 percent of its Recovery Act funding on physical infrastructure projects and the procurement of four new police vehicles and other public safety equipment. The City of Durham plans to use its Recovery Act funding on a variety of programs and projects, including \$746,013 from the Edward Byrne Memorial Justice Assistance Grant (JAG)<sup>42</sup> to fund one Domestic Violence Assistant District Attorney and \$205,146 from a program under the Workforce Investment Act of 1998, administered by the U.S. Department of Labor to provide subsidized work experience and on-the-job training for eligible adult residents.

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**All Four Localities Planning for Phase Out of Recovery Act Funds; Only One Has a Formal Exit Strategy**

One of the four localities that we visited had a formal exit strategy in place for when Recovery Act funds are phased out, but officials from the other localities indicated that their jurisdictions are having ongoing phase out discussions with the departments within their governments that are receiving Recovery Act funding. Specifically, the City of Durham developed formal budget guidelines for fiscal year 2011 in which the City proposes a specific strategy for when Recovery Act funds are no longer available. The proposal focuses on enhancing revenues to replace non-recurring Recovery Act funding for core services. Although Bladen, Halifax, and Jacksonville officials do not have formal plans in place to address the so-called Recovery Act funding “cliff,” they told us that they have made it clear that the Recovery Act supplements are one-time funding increases. Jacksonville officials also told us that they plan to absorb the continuing costs generated by projects.

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**North Carolina Budget Officials Report that Fiscal Challenges Persist, but See Some Early Signs of Potential Recovery**

North Carolina budget officials told us that the state is still experiencing significant budget challenges, but reported some improvements over projections made in mid to late 2009. The officials told us that most state agencies have been required to withhold 5 percent of their budget spending in response to the state’s projected budget shortfall. According to state budget officials, beginning in January of this year the state

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<sup>42</sup>The City of Durham will partner with Durham County. The Durham City Council approved a Memorandum of Understanding (MOU) with Durham County to share and use JAG funds to pay for the following shared public safety-related items: one Domestic Violence Assistant District Attorney, Code Red/Reverse 911 communication system, and personnel-related costs associated with the Warrant Control Center.

temporarily withheld state income tax refunds to individuals because the state did not have the cash to make the payments. The officials also told us that while they did not speed up or slow down their use of Recovery Act funds during fiscal year 2010, if the state had not received Recovery Act funding, it would likely have had to make deeper program cuts and raise taxes. According to a report issued by the North Carolina Fiscal Research Division<sup>43</sup>, the state's fiscal year 2009-2011 biennial budget relies heavily on Recovery Act funds. The report states that when adjusted for the \$1.7 billion in Recovery Act funds, the fiscal year 2009-10 total state budget actually decreased \$2.3 billion, or 4.7 percent. For example, according to state budget officials, North Carolina's reserve fund, or "rainy day" account, was approximately \$900 million before it received Recovery Act funds. State officials told us that they used all but \$150 million of its rainy day funds to help close the budget shortfall from fiscal year 2009. The officials also indicated that the state had spent nearly \$1 billion in Recovery Act assistance and would have been forced to deplete its entire rainy day account if Recovery Act funds were not available. In April, the Governor released her budget recommendations for fiscal year 2010-2011 proposing to put \$100 million into the state's rainy day fund which it plans to use in the event of an emergency or as a buffer in the event the state does not impose an estate tax on the estates of individuals who die in 2010. State budget officials explained that, according to state law, North Carolina's estate tax mirrors the federal estate tax and both expired in December 2009, but will return in January 2011. The state will lose revenues in 2010-2011 if the state does not amend its requirement to mirror the federal estate tax and the federal estate tax is not applied to 2010.

State budget officials reported signs of improvement in revenues for the first quarter of 2010. Specifically, the state budget office had projected an \$850 million shortfall in the summer of 2009, but modified their shortfall projections in December to \$450 million deficit. Most of the improvement, however, is related to a corporate settlement initiative that boosted revenue collections by \$422 million. In addition, officials credited the improved budget standing to slightly better than expected revenues in sales and individual income taxes.

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<sup>43</sup>The Fiscal Research Division is a non-partisan state agency that provides budget and tax-related analysis and information to all members of the State of North Carolina's General Assembly.

The officials told us that state officials have had executive discussions regarding a state plan for when Recovery Act funds are no longer available. The officials said that it is difficult to make definitive plans for weaning their programs off of Recovery Act funds because it is hard to predict what the condition of the state or the overall economy will look like a year from now. They said that the state will have a formal exit strategy developed in early 2011.

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## Reporting and Accountability: North Carolina Recovery Act Accountability Community

To ensure accountability and oversight over federal funds received by North Carolina, the Office of the State Auditor (OSA) annually conducts a “Single Audit” that reports on internal controls over financial reporting and compliance with pertinent laws and regulations, as well as a report on compliance with requirements applicable to each major federal program and internal controls over compliance in accordance with OMB circular 133. North Carolina’s 2009 Single Audit report included 168 findings. Eight of these findings were material weaknesses related to provisions of the Recovery Act for the North Carolina Department of Public Instruction (DPI); ESEA Title I Grants to Local Educational Agencies (2), Special Education Grants to States (3), and Special Education Preschool Grants (3). All of the 8 material weaknesses were related to insufficient subrecipient monitoring. The state auditor’s office told us that single audit reports have consistently reported findings related to subrecipient monitoring by state agencies. Insufficient subrecipient monitoring and other deficiencies leave Recovery Act funds vulnerable to fraud, waste, and abuse.

North Carolina has various other entities, in addition to the State Auditor, that provide oversight to ensure the state’s recipients are held accountable for the Recovery Act funds they receive. These entities include the Office of Economic Recovery and Investment (OERI), the Office of Internal Audit (OIA), as well as local government oversight authorities.

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## Office of the State Auditor

In addition to the 2009 Single Audit, OSA is performing interim agency specific internal control and compliance audits for agencies receiving Recovery Act funds. Four interim reports covering the North Carolina Departments of Health and Human Services (NCHHS), Environment and Natural Resources (DENR), Agriculture and Consumer Services (DACS), and Commerce (NCDOC) were issued by OSA prior to the issuance of the 2009 Single Audit. These reports identified numerous issues that could affect the oversight of Recovery Act funds administered by these agencies. For example:

- At NCHHS, the State Auditor reported 10 findings, including internal control deficiencies in cash management and subrecipient monitoring.
- At DENR, the State Auditor reported that Clean Water and Drinking Water subrecipient audit reports were not reviewed, as mandated by federal subrecipient monitoring requirements.
- At DACS, the State Auditor noted certain deficiencies in internal control over financial reporting by DACS.
- At NCDOC, the State Auditor reported deficiencies in subrecipient monitoring at the State Energy Office (SEO) and recommended that SEO revise its monitoring plans and tools to ensure that Recovery Act compliance issues are addressed timely.

OERI senior officials told us they reviewed the OSA reports with NCHHS and NCDOC and detailed steps both agencies are taking to address the OSA findings. NCDOC has revised its monitoring plans and tools to ensure that Recovery Act-specific compliance requirements are addressed timely. The agency has also assigned an internal auditor to the Energy Program who is responsible for implementation of the plans and compliance spreadsheets have been developed so that monitoring is consistent. The Energy Office has filled 2 positions for compliance monitoring and has taken steps to fill an additional 5 positions for compliance monitoring, which will bring their total staff for compliance monitoring to 18.

OERI senior officials also report that NCHHS has taken numerous actions to address OSA findings. For example, NCHHS has sent letters to all 100 North Carolina counties providing Recovery Act federal award information and reporting requirements. The agency, according to OERI, has also implemented processes to drawdown federal Medicaid Program funds based on actual expenditures, rather than estimates and an additional level of review has been added to ensure that federal reimbursement codes are accurate. NCHHS is also taking steps to address the reported deficiencies in subrecipient monitoring by prioritizing completion of an internal tracking system that schedules required monitoring activities within appropriate timeframes and follow-up on any required corrective actions. In addition, OERI is using a tracking system to monitor obligations and expenditures at the subrecipient level on a monthly basis. OERI staff, senior officials report, will continue meeting with NCHHS staff to follow the impact of these and other corrective actions until the findings have been completely resolved.

Subsequent to the issuance of the 2009 Single Audit report, the State Auditor issued 3 more interim agency specific internal control and compliance audits for agencies receiving Recovery Act funds, one on the Office of State Budget and Management (OSBM), the Employment and Security Commission, and on DPI.

- The State Auditor reported that OSBM did not have controls in place to ensure that the calculation of the state's elementary and secondary education expenditures for fiscal year 2006 were accurate. Since the SFSF, the Recovery Act requires states to assure that they will maintain at least their 2006 level of education support in fiscal years 2009, 2010, and 2011 in order to receive SFSF, errors in this calculation could result in the state not maintaining adequate support.
- The State Auditor reported that DPI had material weaknesses in subrecipient monitoring as reported in the Single Audit, plus additional material weaknesses specific to DPI including:
  - September expenditures omitted from initial Section 1512 Recovery Act report
  - Failure to comply with federal suspension and debarment requirements<sup>44</sup>
  - Verification of central contractor registration not performed timely<sup>45</sup>

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Office of Economic  
Recovery and Investment

As we previously reported, OERI was set up by the state to help agencies track, monitor, and report on Recovery Act funds. The state Web site [www.NCcrecovery.gov](http://www.NCcrecovery.gov) is designed to maintain a record of how Recovery Act funds are being spent in a way that is transparent and accountable. OERI officials told us that the implementation of a new software system that is intended to integrate North Carolina's various state agency systems into an overall state-wide system has been experiencing delays. The new

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<sup>44</sup>DPI did not verify that any of the subrecipients of SFSF were not suspended or debarred. This can be accomplished by checking the Excluded Parties List System maintained by the U.S. General Services Administration, collecting a certification from the entity, or adding a clause or condition to be covered to the transaction with that entity.

<sup>45</sup>The central contractor registration (CCR) database is the primary government repository for contractor information required for the conduct of business with the federal government. Since October 1, 2003, it is federally mandated that any contractor wishing to do business with the federal government under a Federal Acquisition Regulation (FAR)-based contract must be registered in CCR, with exceptions prior to award of a contract or agreement.

system will serve as the state's Recovery Act tracking tool and will pull data from several state accounting and procurement systems in order to present a more comprehensive accounting of Recovery Act funds. OERI officials stated that the software system, which was originally expected to be operational by December 2009, is currently in the testing phase and should be operational in the near future. In the meantime, OERI continues tracking the status of the state's Recovery Act funds on an Excel spreadsheet, referred to as the *Weekly Funding and Disbursement Report*, which relies heavily on the state agencies weekly reporting of complete and accurate information to OERI.

North Carolina's OERI Director issued a series of management directives to state agency senior management to address reporting and other accountability mechanisms. The first of these—dated April 9, 2009—stated that state agencies were to report to OERI on a weekly basis the amount of Recovery Act funds they had obligated, disbursed, and drawn down. OERI officials told us that they use the agency weekly reports to update OERI's *Weekly Funding and Disbursement Report* that in turn is used for tracking the amount of Recovery Act funds spent and also as a monitoring tool. For example, OERI officials are assigned specific agencies to track Recovery Act grants received in order to ensure the agency is on track to meet statutory deadlines to obligate funds. If it appears that the agency will not be able to obligate the funds before the obligation period expires, OERI officials said they work with the state agency and cognizant federal agency on arrangements to have the funds redistributed.

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## Office of Internal Audit

OIA is housed within OSBM and provides internal audit services for eight of North Carolina's state agencies: (1) Department of Administration (DOA); (2) NCDOC; (3) OSA; (4) Department of Labor; (5) Community Colleges Central Office; (6) OSBM; (7) Governor's Office; and (8) Wildlife Resource Commission.<sup>46</sup> OIA's Assistant State Budget Officer/Audit Director stated that in September 2009 her office received \$1.2 million of Recovery Act SFSF funds to cover the salaries and other expenses (i.e. travel) for 5 additional auditors to cover the extra workload associated with the risk assessments, compliance reviews, and assessments of sub-recipient monitoring plans for Recovery Act funds. NCHHS, DPI, and DENR were each assigned one of the 5 newly hired auditors. A fourth

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<sup>46</sup>According to OIA's Assistant State Budget Officer/Audit Director, other state agencies have their own Internal Audit office.

auditor conducts an audit of the SFSF funds every 6 months and other audits as assigned. A Memorandum of Understanding (MOU) was established between OIA and the SEO where the fifth auditor was placed to perform audits of the Weatherization Program. This auditor was hired in October 2009 and resigned in March 2010; the position remains vacant. Thus far, these auditors have issued 2 audit reports— an assessment of DENR’s internal controls over purchasing and accounts payable and a report on a special project to compare other states’ policies and procedures with the SEO’s policy and procedure manual and identify best practices related to the energy programs. The DENR report indicated that DENR purchasers were unfamiliar with Recovery Act requirements, which resulted in 5 findings including 2 purchases that lacked adequate competition, 1 that lacked adequate documentation to support the sole source purchase, and 2 others that were made on a State contract without proper approval. The SEO report resulted in a finding regarding SEO’s program policies and procedures manuals and identified several best practices. OIA has an additional 9 audits that are in process with more planned for the future. The OIA Assistant State Budget Officer/Audit Director stated that, together, its auditors cover about 70 percent of the state’s Recovery Act programs accounting for about 82 percent of the Recovery Act funds.<sup>47</sup>

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## City Oversight

The City of Charlotte’s Internal Audit Department provides oversight of Recovery Act funds received by the city and has begun to perform audits and reviews. Department auditors told us that they issued their first Recovery Act report before the first 1512 quarterly report in order to encourage better record keeping. The department’s report on Recovery Act reporting readiness was issued on September 25, 2009. This report addressed the problem encountered due to the software’s unavailability during the trial run and reported that problems had been fixed. The report showed that 93 percent of the required data had been entered into its computer system by September 25, 2009. The Internal Auditors reported to us that by the first reporting deadline—October 10, 2009—100 percent of the data had been entered into the system. In fiscal year 2010, the group is focusing their Recovery Act audit efforts on assessing the performance measures on a single project, the Clean Water SRF, Muddy Creek.

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<sup>47</sup>These numbers do not include North Carolina’s Department of Transportation and Department of Correction because these agencies have internal audit programs. The Department of Transportation has 29 audit positions in its Inspector General function and the Department of Correction has 18 internal audit positions.

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## North Carolina Officials Report Few Problems with Recipient Reporting, but More Review Is Necessary to Fully Ensure Accuracy of Data

After the April 2010 recipient reporting deadline, we interviewed officials from two state education agencies, DPI and the University of North Carolina General Administration (UNC-GA)<sup>48</sup> to assess their methods for calculating and validating full-time equivalents (FTE) to meet the recipient reporting requirement for jobs paid for with Recovery Act funds. We also interviewed officials in one LEA—Wake County Public Schools System—and one institution of higher education (IHE)—University of North Carolina at Chapel Hill—to assess the methods these institutions used to calculate the FTE data they send to the respective state agencies. North Carolina officials we spoke with at the state and local levels reported few problems with the most recent recipient reporting. These officials also described similar processes for calculating FTEs, with LEAs having the responsibility for reporting jobs to DPI and the University of North Carolina’s 16 individual university campuses reporting jobs to UNC-GA.

A senior official in DPI’s finance office told us that the Department uses its existing financial management system to collect LEAs’ budget data to report FTEs for jobs paid for with Recovery Act funds. LEAs electronically submit budget and monthly payroll data to DPI. According to this official, the budget data include the number of positions paid with Recovery Act funds. DPI then uses these data to report the FTEs for LEAs. Wake County Public Schools System (WCPSS) officials explained that the state’s budget system includes options for designating (1) whether a salary paid with Recovery Act funds has changed from prior budget submissions, (2) the salary represents a job that is saved or one that is created (i.e., a new position) and (3) options for LEA uses of the funds (hire new staff to support or expand ESEA Title I programs, for example). However, this senior official in DPI’s finance office noted that the information the state receives from LEAs reflects uses of the funds for direct personnel, but does not include FTEs for vendors paid with Recovery Act funds. This DPI official reported that DPI uses the budget data to determine the number of staff FTEs and validates these data using the monthly payroll data. This senior DPI official also said that if there are discrepancies, staff will contact the LEA to reconcile the differences. To report on SFSF funds, DPI submits data on the number of FTEs to the North Carolina Office of State Budget and Management (OSBM), the agency responsible for

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<sup>48</sup>The University of North Carolina – General Administration office is responsible for administration related to North Carolina’s public higher education system. The office is responsible for executing the policies of the UNC Board of Governors and providing administrative oversight in such areas as academic affairs, business and financial management, research, and governmental relations.

submitting recipient reports for SFSF funds, which then reports the data through [federalreporting.gov](http://federalreporting.gov). DPI directly reports data for ESEA Title I and IDEA Part B through [federalreporting.gov](http://federalreporting.gov). While DPI's method for collecting recipient reporting information can ensure that staff salaries paid with Recovery Act funds are uniformly captured, the state is likely underreporting uses of Recovery Act funds because it does not capture FTEs for vendors (e.g., professional development providers). DPI officials reported that the department will develop a web-based system to collect vendor FTEs for the next recipient reporting period.

UNC-GA officials reported to us that institutions in North Carolina's university system calculate FTEs individually and each institution sends these data to UNC-GA. UNC-GA officials said that the office's role is to provide state-specific guidance to IHEs based on OMB's guidance, check the data that IHEs submit, and report the data to OSBM in the same manner as DPI. For the most recent reporting period, for example, UNC-GA sent guidance that required IHEs to report FTEs for 1 month (rather than 3), for the entire quarter, because SFSF funds were used to pay 1 month of salaries for existing instructional staff. A University of North Carolina at Chapel Hill (UNC-CH) finance official said that the institution submits its total FTEs for the quarter to UNC-GA. This official reported to us that UNC-CH uses a printout from its payroll data system, which includes a list of employees paid for the month (by university department and alphabetized within each departmental category), the FTE for each employee, total salary for each employee, and the total salary expenditure by the university, to determine FTEs. This official also said that, to develop FTE data, staff count FTEs, starting with the first employee on this list of employees, until total salaries equal the total SFSF expenditure. UNC-GA officials said that once they receive the FTE numbers from IHEs, they conduct a check for "reasonableness" using factors such as the IHE's past FTE submissions and similarity to other institutions. These officials said that they do not request supporting documentation, although IHEs are expected to maintain the documents related to their submissions to UNC-GA. UNC-GA officials also said that they share monitoring responsibilities with OSBM analysts who compare IHE budgets to expenditures. However, our review of supporting documentation revealed that UNC-CH underreported an estimated 44 FTEs, out of a total reported FTE figure of about 606 FTEs, in the second round of recipient reporting because teaching assistants were assigned "0" FTEs.<sup>49</sup> The UNC-CH finance official

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<sup>49</sup>The official reported that each teaching assistant should have been calculated as a 0.15 FTE.

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we spoke with acknowledged the omission, and said that the institution has taken action to include teaching assistants in future reporting. By spot checking supporting documentation, UNC-GA could detect and correct reporting errors, such as those of UNC-CH, to prevent possible under- or overreporting by individual institutions. A UNC-GA official reported that guidance for future reporting periods will include a reminder that all salaries paid with Recovery Act funds, including teaching assistants, must be included in the FTE totals that institutions report.

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## State Comments on This Summary

We provided a draft of this appendix to the Governor of North Carolina, the North Carolina State Auditor's Office, and the North Carolina Office of Economic Recovery and Investment. We also provided various state agencies and local officials with excerpts of this appendix related to their program. In general, state and local officials agreed with our draft and provided some clarifying and technical suggestions that we incorporated as appropriate.

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## Staff Acknowledgements

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# Appendix XV: Ohio

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## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009<sup>1</sup> (Recovery Act) spending in Ohio. The full report on all of our work, which covers 16 states and the District of Columbia, is available at <http://www.gao.gov/recovery>.

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## What We Did

To continue our ongoing analysis of the use of the Recovery Act funds in Ohio, we updated information on the U.S. Department of Transportation's (DOT) Highway Infrastructure Investment Program, the Department of Housing and Urban Development's (HUD) Public Housing Capital Fund, and three education programs administered by the U.S. Department of Education.<sup>2</sup> We also reviewed the Edward Byrne Memorial Justice Assistance Grant Program (JAG), administered by the Department of Justice. We previously reviewed this program for our July 2009 report. In addition, we collected information on five programs that we have not covered in the past:

- two programs administered by the U.S. Environmental Protection Agency (EPA)—the Clean Water State Revolving Fund (SRF) and the Drinking Water State Revolving Fund;
- one additional program administered by the U.S. Department of Justice—the COPS Hiring Recovery Program (CHRP); and
- two programs that provide capital investments in low income housing tax credit projects—the Tax Credit Assistance Program administered by HUD, and Section 1602 Tax Credit Exchange Program administered by the U.S. Department of Treasury.

For descriptions and requirements of the programs we covered, see appendix XVIII in [GAO-10-605SP](#). In addition, we continued to gather information about the state's economic condition and met with officials from two local governments that we have visited in the past—the City of Toledo and Putnam County. We also contacted officials from oversight entities in Ohio responsible for monitoring Recovery Act funds to discuss their most recent, ongoing, and planned audit results; as well as Ohio's

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

<sup>2</sup>The State Fiscal Stabilization Fund (SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended; and Part B of the Individuals with Disabilities Education Act (IDEA), as amended.

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participation in the Office of Management and Budget's (OMB) Single Audit pilot program.

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## What We Found

Following are highlights of our review:

- **Clean Water State Revolving Fund and Drinking Water State Revolving Fund.** The Ohio EPA funded more Recovery Act SRF projects than any state. We found that Ohio EPA has not developed a written monitoring plan for its oversight of Recovery Act projects. Workloads kept the state from completing some project inspections quickly and during site visits to three projects we found some issues with implementing key aspects of the Recovery Act, including “Buy American” provisions and Davis-Bacon wage rates requirement. Moreover, we found that Ohio EPA lacks a system to verify the accuracy of the number of jobs reported by contractors to subrecipients, as funded through these two programs.
- **Education.** Our work found that the Ohio Department of Education has developed plans for monitoring subrecipients’ use of Recovery Act funds. However, we identified weaknesses in how the state plans to monitor State Fiscal Stabilization Fund (SFSF) funds allocated to institutions of higher education. In addition, we found that reporting by the Ohio Board of Regents did not specifically identify the receipt and use of SFSF funds for institutions of higher education, from February through December 2009, which makes it difficult to determine how the funds were used.
- **Edward Byrne Memorial Justice Assistance Grant program and COPS Hiring Recovery Program.** We visited three localities in Ohio—the cities of Columbus and Youngstown and Franklin County—and found that Recovery Act funds are being used to support immediate criminal justice needs. Generally, funds from both grant programs are being used to fund law enforcement personnel; however, these localities are also using Recovery Act funds to purchase equipment. At the state level, Ohio Office of Criminal Justice Services has awarded over \$35 million in Recovery Act funds to support more than 300 criminal justice projects throughout Ohio.
- **Highway Infrastructure Investment Program.** The state Ohio was apportioned \$936 million in Recovery Act funds for highway infrastructure and other eligible projects. Ohio continues to receive bids averaging 10 percent below state cost estimates. These lower-than-estimated project costs allowed the Ohio Department of

Transportation (ODOT) to fund more projects than originally planned. As of April 28, 2010, ODOT had awarded contracts for 339 out of 393 projects authorized by the Federal Highway Administration. Recovery Act funds account for almost one quarter of Ohio's transportation program for fiscal year 2010 - 2011. A decline in major sources of state transportation revenue may affect the state's ability to meet the maintenance-of-effort requirement.

- **Public Housing Capital Fund.** All 52 public housing agencies in Ohio met the March 17, 2010 deadline to obligate funds provided by the Recovery Act. However, seven agencies in Ohio had obligated less than 50 percent of the funding as the deadline neared. Officials at two of those 7 agencies identified several challenges including (1) delays in design work and bid specifications; (2) "Buy American" provisions; and (3) new state environmental requirements.
- **Low Income Housing Tax Credit programs.** Ohio was allocated approximately \$201.6 million for the Tax Credit Assistance Program (TCAP) and the Section 1602 Tax Credit Exchange Program. The Ohio Housing Finance Agency is responsible for administering the funds across the state and has committed almost all TCAP and Section 1602 Program funds to projects.
- **Selected localities' use of Recovery Act funds.** In Ohio, the state and some localities continue to feel the effects of the economic downturn and reduced revenues. We re-visited Putnam County and the City of Toledo and found they continue to face fiscal challenges. Recent Recovery Act awards went to specific projects that were not funded from the general fund. For example, the city of Toledo was awarded funds from the Neighborhood Stabilization Program 2 to fund the removal of housing units and replace them with a mix of affordable housing and market-rate housing. Putnam County received additional Workforce Investment Act of 1998 funds to provide for further worker assistance.
- **Accountability.** There are a number of state entities identified as having responsibility for monitoring Recovery Act-funded projects in Ohio, namely the State Audit Committee, the Office of Internal Audit (OIA), the Auditor of State, and state-appointed Deputy Inspector General for Recovery Act funds.

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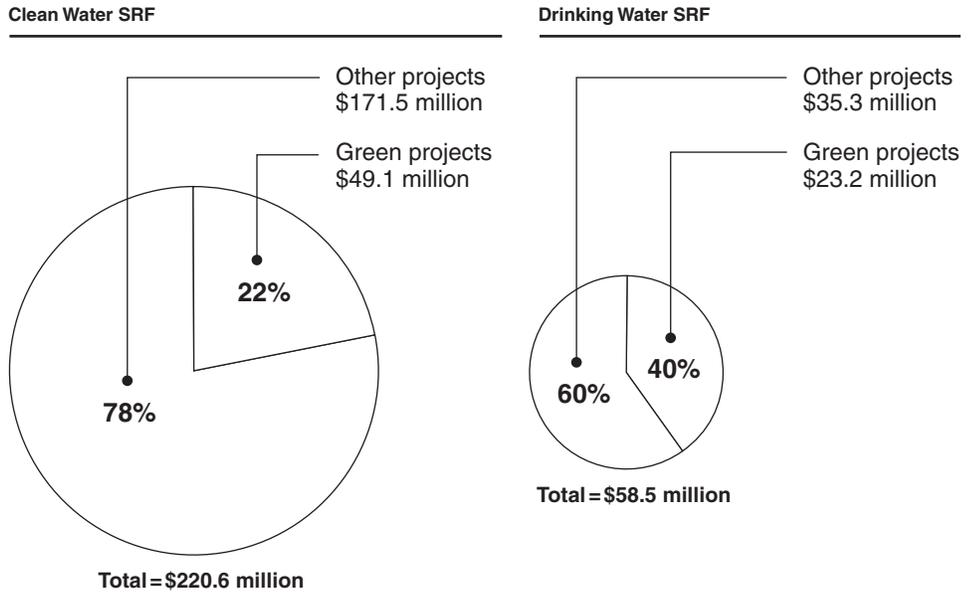
## Ohio EPA Funded More Recovery Act SRF Projects Than Any Other State

Ohio received a \$58,460,000 allocation for its Drinking Water State Revolving Fund (SRF) program from the U.S. EPA and funded 62 projects. In addition, Ohio received an allocation of \$222,851,900 from the U.S. EPA for its Clean Water SRF program and funded 274 projects, making Ohio the state with the most Recovery Act-funded SRF projects. Many Clean and Drinking Water projects also received base SRF funds, and all of the Recovery Act funding was provided in the form of principal forgiveness.<sup>3</sup> Ohio EPA officials told us they chose to fund as many projects as possible to spread Recovery Act funds to communities that may not have had an opportunity to participate in the SRF programs in the past. In Ohio, 37 Drinking Water and 76 Clean Water SRF subrecipients had not received funds from the respective SRF program before. Ohio EPA also selected 118 Clean and Drinking water projects to meet the Recovery Act green reserve requirement, as shown in figure 1, and these projects used 22 percent of the Clean Water funds, and 40 percent of the Drinking Water funds. Examples of green projects in Ohio include, installation of solar powered circulators at a wastewater treatment plant, and installation of a micro turbine to convert methane gas into electricity for use at a wastewater treatment plant.

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<sup>3</sup>Principal forgiveness was how Ohio EPA chose to meet the Recovery Act requirement that 50 percent of SRF funds be a form of additional subsidization.

**Figure 1: Percentages of Ohio EPA’s Recovery Act Clean and Drinking Water Funds used for Green and Other Projects**



Source: GAO analysis of Ohio EPA data.

### Eleven Months after Making Its First Award, Ohio Is Developing Its Monitoring Plan

Ohio EPA does not have a written plan to monitor whether the individual Recovery Act projects it funds through the programs comply with Recovery Act requirements. According to U.S. EPA officials, although U.S. EPA has established minimum requirements for subrecipient monitoring, such as requiring states to review reimbursement requests, states are allowed to determine their own subrecipient monitoring procedures, including the frequency of project site inspections. In March 2010, Ohio’s Office of Internal Audit (OIA) identified the lack of a monitoring plan as a program risk and recommended that Ohio EPA develop a risk-based approach to monitoring, document its monitoring procedures, and develop procedures to communicate monitoring results. Ohio EPA officials said each project would have a site visit and an administrative file review and they anticipate completing a monitoring plan, including site visit procedures, for Recovery Act SRF projects by May 2010. There were delays in developing a written monitoring plan and scheduling site visits because of the federal deadline to have all projects under contract or construction resulted in the state using most of the resources devoted to the program, according to state officials. As we have reported, state

officials said they limited the amount of administrative costs each state agency could charge in order to maximize the impact of Recovery Act resources in the state.<sup>4</sup>

The state began awarding SRF funds in June 2009. By April 23, 2010, Ohio EPA had inspected 53 out of the 54 Drinking Water projects under construction. However, as late as March 12, 2010, Ohio EPA had inspected only 67 Clean Water projects—about 29 percent—of the total projects.<sup>5</sup> By April 19, 2010, Ohio EPA had inspected about 41 percent of the Clean Water projects, but its reports show that at least 6 projects are complete and have not been inspected and there are still a number of others that are nearing completion and have not been inspected.

The site visits are normally done by engineering staff, but in October 2009, to address the workload, non-engineering staff from district offices began to visit project sites to conduct the required inspections and monitoring, according to an Ohio EPA official. However, in March 2010 the supervisor for the engineering team said some of these inspections needed to be redone because the quality varied or because of issues with the project identified during the visit. The supervisor said they prioritized visits based on the award date, and the project's construction period. However, some Clean Water projects that had not started or had just started construction were also visited.

On-site monitoring of projects while construction is ongoing can help ensure compliance with Recovery Act requirements before the funds have all been spent. To see how subrecipients implemented key aspects of the Recovery Act, we visited three Clean Water projects under construction that Ohio EPA had not yet visited.<sup>6</sup> The projects were selected to provide a

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<sup>4</sup>See GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed*, [GAO-09-1017SP](#), (Washington, D.C.: Sept. 23, 2009).

<sup>5</sup>This percentage is calculated using the number of total projects (229), rather than the number of projects under construction, because inspection information provided by Ohio EPA had incomplete construction status information. Ohio EPA is responsible for inspections at 229 Clean Water projects; 45 additional awards were given to local governments for home sewage upgrades and replacements. The local governments inspect those projects.

<sup>6</sup>One of projects will bring sewer service to 168 city residences. Another of the projects will rehabilitate sewers in three areas of a county. The final project will improve the pump station and increase the efficiency at a regional wastewater treatment plant.

mix of (1) green and nongreen projects, (2) subrecipient service areas, and (3) projects at various stages of completion. During our visits, we conducted interviews and asked for documentation for selected items on Ohio EPA and U.S. EPA's checklists for Recovery Act site visits. We noted, and the subrecipients confirmed, the following issues:

- The Buy American documentation provided by one of the subrecipients raised questions as to whether all of the manufactured goods used in their project were produced domestically. Information provided by the U.S. EPA states that without adequate documentation, compliance with Buy American requirements cannot be credibly and meaningfully demonstrated. For this subrecipient, the specificity and detail of the documentation provided about one of the products in the project left questions as to whether the product was produced at one of its manufacturer's non-domestic locations.
- At the time of our visit, one subrecipient was almost 2 months late in conducting interviews of contractor workers to ensure payment of Davis-Bacon wage rates. U.S. EPA's award terms and conditions require subrecipients to interview a sufficient number of contract workers within 2 weeks of the first payroll.
- The jobs data submitted by one subrecipient included sewer district employee hours that were not Recovery Act funded. OMB guidance states that only Recovery Act funded hours should be included in quarterly reports.<sup>7</sup> This same subrecipient's fourth quarter 2009 data covered September, October, and November, instead of October, November and December. The subrecipient included data for this time period in reports for two other projects. The employee who compiled the data said the numbers for the first quarter of 2010 also lag by 1 month. The employee said they staggered the months to give more time to compile the data.

Ohio EPA developed a checklist to help its monitoring staff ensure compliance with Recovery Act requirements, but the checklist does not direct these staff to review reporting documentation that could aid in verifying the accuracy of job counts. In March 2010, U.S. EPA released a Recovery Act checklist for states to use when inspecting subrecipients

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<sup>7</sup>OMB Memorandum M-10-08: Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates, memorandum from Peter R. Orszag to the heads of executive departments and agencies (December 18, 2009) at pp. 1-2.

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that includes a section on reporting compliance.<sup>8</sup> Ohio EPA's current monitoring procedures would not detect noncompliance with reporting requirements, such as reporting on the wrong time period, as described above. State oversight of subrecipient job reporting during site inspections could help the state to ensure data quality and compliance with OMB guidance.

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### Ohio Lacks a System to Verify the Accuracy of Jobs Data

Ohio EPA has not instituted a process to validate subrecipients' quarterly job reports. Although Ohio EPA has a process for basic reviews of subrecipients' reporting forms, the agency has not developed a process to validate job data quality.<sup>9</sup> In addition, Ohio EPA does not require subrecipients to collect documentation and validate data collected from their contractors, and Ohio EPA has not provided guidance to subrecipients on validating job reports. In March 2010, Ohio's OIA also recommended that Ohio EPA develop procedures for validating subrecipients' job data.

To learn what actions were being taken by subrecipients to verify job data from its contractors for the fourth quarter 2009, we spoke with staff responsible for providing data on jobs to the state at 25 of the largest projects in Ohio that had awards by the end of 2009.<sup>10</sup> Some subrecipient staff responsible for reporting jobs data to the state expressed concern about the accuracy of data submitted by contractors.

- Of the 16 projects that had activity to report, 14 did not have a process to verify contractor job counts with payroll or other records. Several subrecipients acknowledged they already collect payroll information

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<sup>8</sup>The checklist is a tool to help states evaluate subrecipient compliance with the Recovery Act requirements. U.S. EPA does not require states to use the checklist. Ohio EPA officials noted that their checklist has been reviewed by U.S. EPA regional officials.

<sup>9</sup>OMB's June 22, 2009 guidance states that recipients and subrecipients should establish internal controls as appropriate to ensure accurate and complete information reported in recipient reports. OMB Memorandum M-09-21: Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, memorandum from Peter R. Orszag to the heads of departments and agencies (June 22, 2009) at p. 29.

<sup>10</sup>By Dec. 31, 2009, Ohio made awards to 189 Clean Water projects and 60 Drinking Water projects. We spoke with staff at the largest six Drinking Water projects, which represent about 44 percent of Ohio's Recovery Act Drinking Water funds, and we spoke with staff the largest nineteen Clean Water projects, which represent about 34 percent of Ohio's Recovery Act Clean Water funds.

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that could help confirm the job data, but did not take steps to compare the two sets of numbers.

- Of the 14 projects that did not have a formal verification process, staff at 3 projects had observed the work activity and had an idea of job activity. However, these staff could not document the accuracy of the job counts based on these visits. Eleven projects did not have any manner to verify job counts.

Reliance on contractor submitted data without validation may result in reports that do not accurately reflect the number of Recovery Act-funded jobs in the reported time period. In order to ensure more accurate accounting for the number of jobs created, the state may want to provide guidance to its subrecipients to verify data on the number of hours worked and paid with Recovery Act funds. Comparisons of job numbers and payroll records, for example, could be conducted using payroll documents required for Davis-Bacon compliance checks under the Recovery Act. In addition, including oversight of subrecipient reporting data during state project inspections and providing guidance to subrecipients on how to validate job data could improve data quality and ensure compliance with OMB guidance. Further, fully implementing the OIA's recommendations should strengthen subrecipient monitoring and reporting data quality.

Ohio EPA reviewed a draft of this appendix and said that it had developed steps to validate subrecipients' quarterly job reports. We have not tested the implementation of these steps, but note that while the steps appear to check the calculations and completeness of the forms submitted by subrecipients, they do not validate that the hours reported were actually worked and funded with Recovery Act funds.

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## Monitoring of Recovery Act Education Funds in Ohio

The Ohio Department of Education (ODE) administers all Recovery Act funds for education, including Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended, (ESEA), the Individuals with Disabilities Education Act, as amended, (IDEA), Part B, and the State Fiscal Stabilization Fund (SFSF).<sup>11</sup> ODE is passing Recovery Act ESEA Title I and IDEA funds to school districts. It is using SFSF funds to (1) fund a portion of the state's foundation funding formula it uses to support local educational agencies (LEA) each year, (2) provide funding to the state's public institutions of higher education (IHE) through the state's share of instruction, and (3) support operating costs such as salaries and other expenses for the Ohio Department of Rehabilitation and Corrections.

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## Ohio Has Developed a Comprehensive Monitoring Plan but Some Weaknesses Need to Be Addressed

ODE has developed comprehensive plans for monitoring how its subrecipients spend funds under ESEA Title I and IDEA; however, we identified weaknesses in the state's plans for monitoring funds from the SFSF. Specifically, we identified weaknesses in how the state plans to monitor the SFSF funds allocated to IHEs.

For ESEA Title I and IDEA, ODE's Office of Federal Programs relies on existing monitoring policies and procedures to monitor LEAs' use of Recovery Act funds through a pre-existing online grants application and verification system. This system provides ODE with information on the amount and types of expenditures paid with Recovery Act funds when LEAs request a payment. ODE has an established monitoring schedule to ensure all LEAs are monitored on a 3-year cycle. In addition, ODE's Office of Exceptional Children coordinates with the Office of Federal Programs to monitor LEAs' use of IDEA by conducting management assistance reviews. ODE's monitoring procedures include the following steps:

- Annual off-site administrative reviews are completed for LEAs receiving Recovery Act funds, including ESEA Title I and IDEA. These

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<sup>11</sup>The Recovery Act created the SFSF in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services, such as public safety. Stabilization funds for education distributed under the Recovery Act must first be used to alleviate shortfalls in state support for education to school districts and public institutions of higher education (IHE). States must allocate 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds).

reviews help ODE determine which LEAs may need an additional level of review outside of the 3-year cycle.

- All LEAs being reviewed are required to submit a self-evaluation annually prior to June 30.
- At least 10 percent of the LEAs being reviewed will be surveyed by telephone to validate responses submitted in their self-evaluation. In addition, telephone surveys will be conducted with all LEAs being reviewed that do not submit their self-evaluation and selected LEAs with certain risk factors including improvement status, allocation amount, previous audit results, staffing changes, and date of the last telephone survey.
- A minimum of 10 percent of the LEAs being reviewed will receive an on-site monitoring visit each year. All on-site visits conducted by the Office of Federal Programs and the Office of Exceptional Children include data collection instruments, monitoring reports, and feedback to LEAs.
- ODE has processes to verify that required corrective actions are implemented.

Because the SFSF program is new, Ohio had to develop new monitoring policies and procedures to track those funds and ensure its subrecipients were in compliance with the rules governing Recovery Act funds. Ohio received about \$1.79 billion from the SFSF and allocated those funds to LEAs, IHEs, and the Ohio Department of Rehabilitation and Corrections. As required by the U.S. Department of Education, Ohio submitted its plan for monitoring how these funds are spent to the department.

- For LEAs, ODE's Center for School Finance and Options has developed new monitoring policies and procedures and trained existing staff to monitor LEAs' use of Recovery Act funds. The Center for School Finance and Options will rely on 5-year financial forecasts, quarterly expenditure data submitted to the Ohio Auditor of State, and on-site visits to monitor SFSF funds. ODE required LEAs to include supplemental data on the allocation and expenditure of SFSF funds in their 5-year financial forecasts that are updated twice a year. In addition, the Auditor of State requires LEAs to submit quarterly expenditure data for all Recovery Act funds, including SFSF funds. ODE has access to the Auditor's data and reviews the quarterly reports to monitor expenditures. In addition, LEAs that have received fiscal

distress designations from the Auditor of State are subject to on-site monitoring, which includes a review of SFSF funds.<sup>12</sup>

- For IHEs, Ohio's Board of Regents (BOR) reviews quarterly and year-end financial reports to ensure IHEs are in compliance with Recovery Act reporting requirements. To ensure SFSF funds are being used to support education and general expenditures, BOR shares federal guidelines with IHE chief financial officers and requires them to certify SFSF funds are being used appropriately. In addition, IHEs in Ohio have been directed to report quarterly receipt and use of SFSF funds to the Auditor of State.
- For Department of Rehabilitation and Corrections, the Ohio Office of Budget and Management will monitor SFSF funds through appropriation and allotment control processes in the state's accounting system. According to Office of Budget and Management officials, the state will document the allocation and spending of SFSF funds through its Monthly Financial Report and use payroll reports to validate salaries paid by the Department of Rehabilitation and Corrections using SFSF funds.

Although Ohio has developed a plan for monitoring SFSF funds, reporting by the Ohio Board of Regents (BOR) did not specifically identify the receipt and use of those funds during the first and second reporting periods (February through December 2009) which makes it difficult to determine how the funds were used. As noted above, BOR reviews quarterly and year-end financial reports to monitor IHEs' Recovery Act spending and also estimates the number of jobs retained by IHEs. A senior BOR official told us that most SFSF expenditures by IHEs were spent on salaries. IHEs also report the monthly receipt and use of SFSF funds to the Auditor of State's Web site, as required by the state's monitoring plan. However, when we reviewed the Web site in April 2010, we found that Ohio State University, the largest SFSF recipient in Ohio, had not reported any information on its SFSF expenditures. Ohio State University financial officials told us that they will report the required information to the Auditor of State's Web site, and that SFSF funds were used for personnel costs during the first and second reporting periods. Because BOR did not amend the quarterly financial reports until the third quarter, BOR may

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<sup>12</sup>In the case of LEAs, financial distress designations are rated as fiscal caution, fiscal watch or fiscal emergency. As of April 21, 2010, 32 LEAs have received financial distress designations.

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have been unable to determine how SFSF funds were used during the first and second reporting periods. Moreover, a senior state official told us that there is no mechanism to validate the expenditure information submitted by IHEs. According to a senior BOR official, for the third reporting period and going forward, all IHE CFOs and controllers have certified that all SFSF expenditures by IHEs, including Ohio State University, will be used for salaries— an allowable expenditure under the Recovery Act; and the financial quarterly reports will identify cumulative revenues and expenditures associated with SFSF funds. In addition, after reviewing a draft copy of this appendix, BOR drafted changes to their section of the state's SFSF monitoring plan, which was originally submitted to the U.S. Department of Education on March 12, 2010. The state is currently in the process of reviewing these changes and it is anticipated they will submit an updated plan to the U.S. Department of Education by May 28, 2010.

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### Number of Challenges Could Impede Implementation of Ohio's Monitoring Plan

We identified a number of challenges facing the state in implementing its plan to monitor Recovery Act education funds. As we discussed in our September report,<sup>13</sup> Ohio limited the amount of administrative costs each state agency could charge in order to maximize the impact of Recovery Act funds in the state. As a result, ODE did not add additional staff to monitor how the LEAs were spending Recovery Act funds. For ESEA Title I and IDEA, ODE did not increase the number of staff responsible for monitoring Recovery Act funds, despite double the number of applications that needed to be approved in the grants application and verification system. For SFSF, ODE also did not increase staff but has authorized overtime for staff making programming changes to various reporting and monitoring systems and convened a series of training sessions to educate staff about the new SFSF monitoring policies and procedures and how to respond to LEAs needing technical assistance.

The increased workload on existing staff may limit the state's ability to carryout its monitoring program. For example, ODE has experienced delays in filing the reports to LEAs on their on-site visits. According to ODE's on-site monitoring procedures, the Office of Federal Programs will issue a report of findings to the LEA within 30 days following the on-site review and the Office of Exceptional Children will issue a report of findings to the LEA within 60 days following the on-site review. These reports are important because some LEAs may not have sufficient notice

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<sup>13</sup>[GAO-09-1017SP](#).

to take correction action or receive technical assistance needed to ensure appropriate use of Recovery Act funds. Between December 2009 and April 2010, ODE had completed 44 on-site visits. As of April 22, 2009, the Office of Federal Programs had issued reports to 21 LEAs on ESEA Title I and IDEA of which 10 were issued within 30 days following the on-site review. However, the Office of Exceptional Children has not issued any management assistance reviews since April 8, 2009. When we visited Toledo Public Schools in April 2010, district officials said that they still had not received a report based on ODE’s visit 3 months earlier. A senior ODE official later confirmed that Toledo Public Schools was issued a report of findings from the Office of Federal Programs on April 19, 2009, but was still awaiting results from the management assistance review conducted by the Office of Exceptional Children during the same period.

## CHRP and JAG Programs Are Supporting Immediate Local Criminal Justice Needs

We visited three localities in Ohio—the cities of Youngstown and Columbus, and Franklin County. Youngstown and Columbus received both JAG and CHRP funding, while Franklin County only received JAG funding. Budget conditions in Columbus and Youngstown are such that police departments have experienced budget cuts and were in danger of laying off personnel. In Youngstown, the city is the prime recipient of JAG funds and has provided funds to four other local governments. In Columbus, the city is a subrecipient of funds from Franklin County, which is responsible for meeting all federal reporting requirements for JAG. Table 1 shows the amount of funding received by the state of Ohio for CHRP and JAG programs.

**Table 1: Amount of Funding Received by State of Ohio**

Funding type	Amount
CHRP	\$79,294,927
JAG local funding	\$23,596,436
JAG state funding	\$38,048,939
<b>Total</b>	<b>\$140,940,302</b>

Sources: Department of Justice and Ohio Office of Criminal Justice Services.

## Recovery Act Funds are Being Used to Retain Jobs

At the state level, officials told us that JAG funds awarded to subrecipients are being used to support all seven program areas. The largest percentage of pass-through funds was awarded to support law enforcement activities. Table 2 shows the breakdown of funds, by program area, awarded to subrecipients by the Ohio Office of Criminal Justice Services (OCJS).

**Table 2: Distribution of JAG Funds Awarded by OCJS, by Program Area**

JAG program area	Amount	Percentage	Total number of projects
Law Enforcement	\$12,401,035.52	35	110
Corrections	8,323,141.80	24	46
Crime Prevention & Education	4,593,430.22	13	70
Program Planning, Evaluation, & Technology Improvement	3,290,903.82	9	26
Crime Victim & Witness Programs	2,676,585.32	8	37
Prosecution & Courts	2,805,401.38	8	33
Drug Treatment & Enforcement	934,406.45	3	12
<b>Total</b>	<b>\$35,024,904.51</b>	<b>100</b>	<b>334</b>

Source: Ohio Office of Criminal Justice Services.

Although JAG funds can be used to support 7 broad program areas, in general, the localities we visited are using Recovery Act funds to support law enforcement activities. Specifically, funds are being used to retain personnel who would have otherwise been laid off. In Youngstown, for example, the city was able to retain six officers with its direct allocation JAG award and another four with its pass-through award from the state. In Columbus, city officials told us the city was able to provide jobs to 23 cadets once they graduated from the police academy. Without Recovery Act JAG funds, the city would have been unable to provide jobs to the 23 cadets after graduation. Table 3 shows how JAG funds are being used in the localities we visited.

**Table 3: Distribution of JAG funds in selected localities, by Program Area**

	Youngstown	Columbus	Franklin County
Law Enforcement	\$852,599 (100%)	\$1,688,000 (100%)	\$3,134,173 (64%)
<i>Personnel</i>	586,419 (69%)	1,388,000 (82%)	2,202,961 (70%)
<i>Equipment</i>	266,180 (31%)	300,000 (18%)	545,032 (17%)
<i>Other Costs</i>	N/A	N/A	386,180 (12%)
Prosecution & Courts	0 (0%)	0 (0%)	82,000 (2%)
Crime Prevention & Education	0 (0%)	0 (0%)	237,500 (5%)
Corrections	0 (0%)	0 (0%)	1,031,565 (21%)
Drug Treatment & Enforcement	0 (0%)	0 (0%)	0 (0%)
Program Planning, Evaluation, & Technology Improvement	0 (0%)	0 (0%)	25,000 (.5%)
Crime Victim & Witness Programs	0 (0%)	0 (0%)	396,585 (8%)
<b>Total</b>	<b>\$852,599</b>	<b>\$1,688,000</b>	<b>\$4,906,823</b>

Source: Columbus Division of Police, Franklin County Office of Homeland Security & Justice Programs, and Youngstown Police Department.

Note: Funding and percentage amounts for Franklin County include city of Columbus. The above total for Franklin County does not include \$402,088 withheld for administrative costs associated with managing the grant. Percentages may not add to 100 percent due to rounding.

Although localities do not have much flexibility in the purposes for which CHRP funds are to be used, Youngstown and Columbus have taken different approaches in how they are using their awards. In Youngstown, the city is using its CHRP award to retain 9 additional officers within the police department. Officials told us because Youngstown received Recovery Act JAG and CHRP funds, no officer positions had to be eliminated. In Columbus, however, CHRP funding is being used to hire 50 new officers. These 50 officers will allow the city to move more experienced officers into neighborhood policing programs.

**Localities Have Concerns with Maintaining Positions Funded by the Recovery Act**

Officials in the localities we visited expressed concerns with their ability to maintain positions funded with Recovery Act dollars. Officials in Youngstown told us that the city plans to use revenue from the city's general fund to pay the salaries of those officers funded by CHRP and JAG funding after those funds expire. However, the ability of the city to do this is dependent on Youngstown not replacing officers expected to retire this year and in 2011 and using those funds to pay the salaries of those officers currently being funded by the Recovery Act; overall the number of officer positions in the department is expected to decrease. The city anticipates

losing approximately 30 officers to retirement from 2009 through early 2011.

In Columbus, voters passed a half percent income tax increase in August 2009 to provide, among other things, the city with additional general fund revenue. Officials told us they believe that the additional revenue generated by the increase will be sufficient to ensure that officers funded with JAG and CHRP grants can be retained once funding expires. The proposed 2011 budget for the Columbus Division of Police increases funding by more than \$5.8 million from fiscal year 2010. Officials told us that they believe this increase is the result of the income tax increase and the commitment of the city to maintain programs funded with Recovery Act dollars.

The ability to sustain programs once Recovery Act funds expired influenced how one locality is spending JAG funds. Franklin County officials told us that one subrecipient revised their application in order to purchase an automatic license plate reader instead of funding a school resource officer because of concerns with being able to maintain the position once JAG funds were expended.

OCJS officials told us that the ability of subrecipients receiving pass-through funding to sustain programs funded with their JAG award was factored into the competitive award process. However, OCJS stated that it is not their responsibility to ensure that programs can be sustained once funding expires. According to OCJS officials, they anticipate that subrecipients will apply for JAG funding to continue projects after Recovery Act funds have been expended. OJCS officials also told us that they do not expect the Department of Justice to increase its award to states in response to more applicants.

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**Oversight of Subrecipient  
Use of Recovery Act funds  
Varies**

In addition to collecting and validating subrecipient data for the various federal reporting requirements, prime recipients also provide oversight to ensure that subrecipients are appropriately using Recovery Act funds. OCJS uses both on-site fiscal and programmatic reviews and desktop fiscal reviews to track and monitor the progress of subrecipient awards to ensure compliance. Although OCJS plans on completing on-site reviews of all the sub-recipients, officials told us they are using a risk-based assessment to prioritize which subrecipients to visit first.

An official at OCJS told us that the use of on-site reviews resulted in identifying a subrecipient that was unable to provide satisfactory

documentation of compliance with federal reporting requirements. This official told us that the state pulled back the subrecipient's Recovery Act funds, as well as non-Recovery Act grant funds.

Franklin County officials also told us that they are using desktop and on-site reviews to ensure compliance with state and federal requirements, not only for Recovery Act-funded grants but for all criminal justice-related grants. As part of their monitoring, officials told us they have developed a performance measurement tool modeled after the Bureau of Justice Assistance's Performance Measurement Tool for subrecipients to use with their Recovery Act funds. The Franklin County measurement tool, in addition to assisting officials with determining future criminal justice priorities for the region, also serves as a way for subrecipients to identify positions funded with Recovery Act dollars.

In Youngstown, however, oversight is limited to desktop reviews of subrecipient reports submitted to Youngstown officials responsible for managing the grant. Officials told us that they have not performed any on-site reviews. They stated that they know Recovery Act funds were spent appropriately because they had receipts for the equipment purchased with JAG funds.

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## Highway Infrastructure Investment

The Recovery Act provides additional funds for highway infrastructure investment using the requirements and structure of the existing Federal-Aid Highway Program, generally and its Surface Transportation Program in particular, which apportions money to states to construct and maintain eligible highways and for other surface transportation projects. In March 2009, \$936 million in Recovery Act funds was apportioned to Ohio for highway infrastructure and other eligible projects. The federal government obligated<sup>14</sup> the state's full apportionment by the 1-year deadline of March 2, 2010.

According to Ohio Department of Transportation (ODOT), the state continues to receive bids averaging 10 percent below state cost estimates, which means the state must request FHWA to deobligate funds in order to

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<sup>14</sup>For federal-aid highway projects, the Federal Highway Administration of the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's contractual commitment to pay for the federal share of a project. This commitment occurs at the time the federal government approves a project agreement and the project agreement is executed.

recapture the funding not needed and subsequently obligate those funds onto new projects. While lower-than-estimated project costs reduced the obligation rate, they also allowed ODOT to fund more projects (51) than originally planned. ODOT officials told us that the increase in the number of funded transportation projects was directly related to contracts being awarded below the state's project cost estimate. According to ODOT, because so many contracts were awarded below the state cost estimate, after the March 2, 2010 deadline, the Federal Highway Administration (FHWA) deobligated \$17 million of the highway funds it had obligated for Ohio.

As of April 28 2010, ODOT had awarded contracts for 339 out of 393 projects funded by FHWA. These contracts were for new construction, minor rehabilitation pavement, and bridge maintenance projects among others; and had an estimated cost of \$803 million. Of those awarded projects 194—valued at \$565.8 million—were under construction and 71—valued at \$59.2 million—are substantially completed. ODOT officials expect the number of contracts to increase tremendously because they typically make a great number of awards during the spring and summer months. As of April 5, 2010, \$145 million had been reimbursed by FHWA to Ohio.

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**No Overall Impact  
Assessment Planned for  
Use of Recovery Act's  
Highway Funds**

According to FHWA Ohio Division officials, determining the impact of the Recovery Act funding would be difficult because a number of projects are funded with Recovery Act funds as well as other federal transportation aid. ODOT reported that it has some capacity to determine the impact of the Recovery Funds on Ohio's highway system. ODOT annually assesses current and estimates future bridge, pavement, and safety and congestion conditions. It also measures the impact of its highway program by measuring miles of pavement and train track improved and the number of bridges and ports improved. However, ODOT officials reported because the Recovery Act does not require an impact assessment, neither FHWA nor ODOT has plans to determine the extent to which the Recovery Act funds have impacted Ohio's highway's system. Officials did note that the \$936 million Recovery Act funds account for nearly one quarter of Ohio's transportation program for fiscal year 2010-2011, and the majority of this funded transportation construction projects.

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## Ohio Reported Some Challenges in Meeting the Maintenance of Efforts Requirements

According to ODOT, Ohio is encountering some challenges in meeting the maintenance-of-effort (MOE) requirement. The Recovery Act's MOE—which is designed to prevent states from substituting federal funds for state funds—requires the governor to certify that the state will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it had planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009 to September 30, 2010. ODOT is concerned that the decline in major sources of state transportation revenue may affect Ohio's ability to meet its MOE requirement. ODOT reported that Ohio's transit and aviation expenditures are about \$5 million less than the forecasted level as of March 31, 2010. Ohio relies on a number of revenue sources to meet its MOE requirement. The major revenues sources include Ohio's general revenue fund and motor fuel tax revenue, both of which have declined. ODOT officials reported that components of the general revenue funds—aviation and transit categories—have declined by about 20 percent and the motor fuel tax revenue has declined by more than 2 percent as of October 2009. In addition, ODOT officials expect further decreases in state revenues. States that are unable to meet MOE obligation will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011.<sup>15</sup>

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## Housing Agencies in Ohio Met the Recovery Act Deadline for Obligating Funds but Faced Some Challenges

In Ohio, 52 public housing agencies received about \$128 million in Public Housing Capital Fund formula grants provided by the Recovery Act (see Figure 3 below) to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.<sup>16</sup> As required by the Recovery Act, public housing agencies had to obligate this funding within 1 year of the date it was made available to them by HUD, which was March 17, 2010. An official from HUD told us that all public housing agencies in Ohio met this obligation deadline, but seven agencies in Ohio had less than 50 percent of the funding obligated with less than 3 weeks to go before the

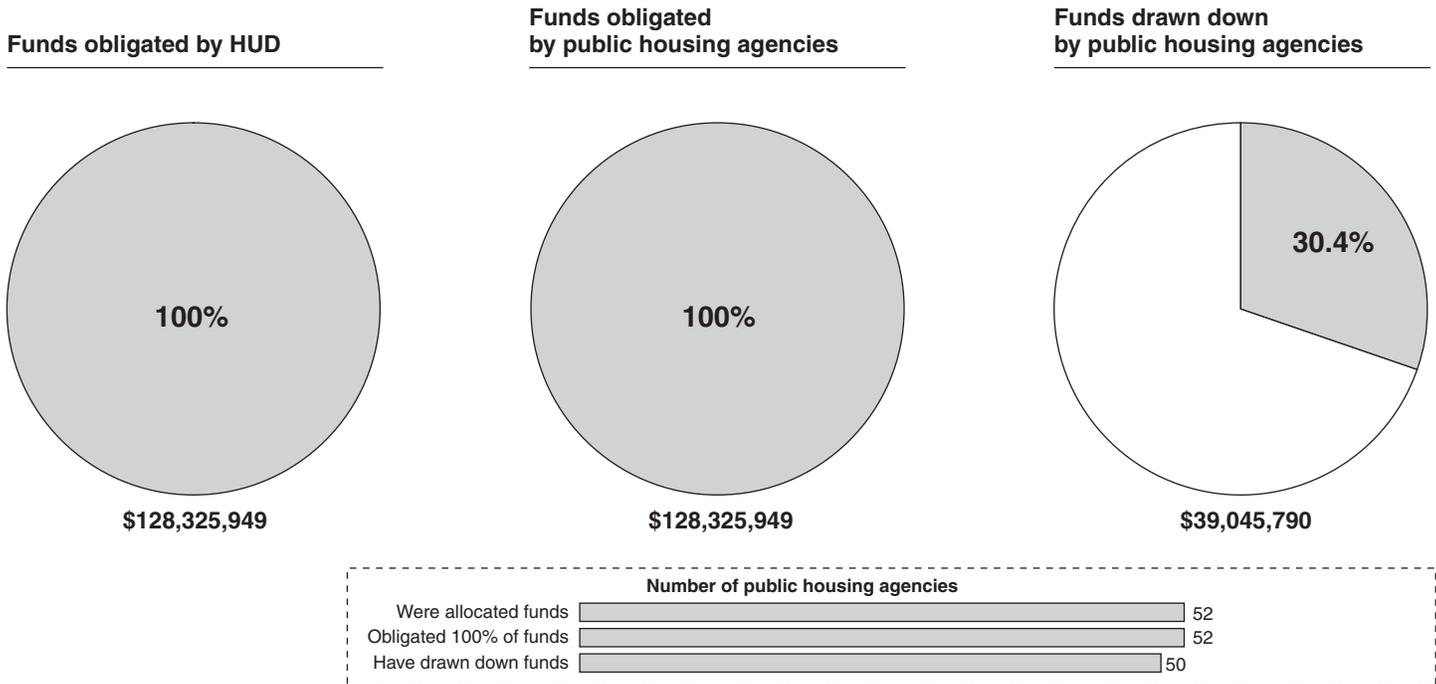
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<sup>15</sup>As part of the federal-aid highway programs, FHWA assesses the ability of each state to obligate its apportioned funds by the end of the federal fiscal year (September 30) and adjusts the states' limitations on obligations for federal-aid highway and highway safety construction programs.

<sup>16</sup>Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

obligation deadline. We met with two of these public housing agencies, Trumbull Metropolitan Housing Authority (MHA) and Chillicothe MHA, which had obligation rates of approximately 5 and 28 percent, respectively at the time of our visits. We held discussions with another two agencies—Columbus MHA and London MHA—that had obligated 100 percent of their Recovery Act formula grant funding before our talks with them. We also visited a fifth agency—Dayton MHA—to discuss the recipient reporting they completed during the reporting period that ended on March 31, 2010. In addition, we talked with HUD officials in the Cleveland field office who provide oversight of the housing agencies in Ohio which received Recovery Act funding to determine how they are monitoring these agencies and helping them meet the obligation deadline and other Recovery Act requirements.

**Figure 2: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in Ohio**



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

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## Housing Agencies Overcame Different Challenges to Meet the Obligation Deadline

Both Chillicothe MHA and Trumbull MHA, which received a total of \$735,798 and \$2,805,043 in Recovery Act formula grant awards, respectively, met the 100 percent obligation requirement. However, the two agencies reported the following challenges in obligating the funds.

- **Delays in design work and bid specifications.** Both PHAs reported they faced delays in getting the design work and bid specifications from architecture and engineering (A/E) firms. Officials from one PHA said the A/E firm was doing a large amount of work for other housing agencies and could not complete the work on their project more quickly because of these other commitments.
- **Buy American provisions.** Chillicothe MHA officials said that finding bathroom and plumbing fixtures made in the United States for the agency wide bathroom remodeling project to satisfy the Buy American provisions was more difficult than expected.
- **Troubled PHAs.**<sup>17</sup> Chillicothe MHA officials told us that their status as a “troubled PHA” resulted in additional oversight such as HUD field office reviews of the agency’s solicitations for bids, bid openings and winning bidder selections caused some administrative delays. These delays impacted their ability to solicit bids for Recovery Act projects and award the contracts.
- **New state environmental requirements.** Trumbull MHA officials said Ohio EPA recently changed several standards for asbestos removal which required more testing and changes to the removal methods in the bid specifications. The final bid package was more than 800 pages long as a result of the required asbestos removal and remediation.
- **Construction bonding.** Trumbull MHA told us that, per their existing procurement policy, the contract for a Recovery Act-funded project was awarded to the lowest cost and responsive bidder, which was a minority-owned business that has done work in the past for the agency. However, the Recovery Act-funded project is bigger than

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<sup>17</sup>HUD developed PHAS to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of the housing agencies’ public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

anything the winning bidder has worked on before for Trumbull MHA. As a result, the surety company that underwrote its performance bond and payment bond<sup>18</sup> performed additional due diligence before issuing the bonds, which, according to Trumbull MHA officials, resulted in a delay after the winning bidder was chosen. Once this additional due diligence work was completed, Trumbull MHA notified us that they awarded the contract a few days after we met with them in March, successfully meeting the obligation deadline.

Officials from both housing agencies were confident that they would meet the 100 percent obligation requirement when we met with them before the deadline and HUD field office staff subsequently confirmed that both agencies obligated all their remaining Recovery Act funding before the March 17, 2010 deadline.<sup>19</sup>

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## HUD Field Office Staff Provide Oversight of Recovery Act Funding

The HUD field office in Cleveland, Ohio is responsible for the oversight of the 52 public housing agencies that received about \$128 million in Public Housing Capital Fund formula grants provided by the Recovery Act. HUD officials stated that they conducted both remote and on-site reviews of these public housing agencies during the months before the March 17, 2010 obligation deadline. HUD officials told us that field office staff conducted remote reviews on all 52 PHAs to ensure compliance with grant requirements and a more rigorous on-site review of 32 of these PHAs that included an examination of procurement files and compliance with specific Recovery Act requirements. The PHAs selected for on-site reviews included all 5 “troubled” housing agencies in Ohio and 27 other agencies in Ohio that received the largest Recovery Act Capital Fund formula grant allocations. HUD officials told us these additional Recovery Act oversight responsibilities have resulted in the temporary assignment of HUD field office staff. HUD assigned field office staff with little experience with the Capital Fund program to conduct the remote reviews while regular Capital Fund staff have been completing the required on-site reviews. HUD officials stated that all remote and on-site reviews were completed by the required deadlines in January and February 2010, respectively.

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<sup>18</sup>In sealed bid construction contracts, three types of bonds or guarantees are required by HUD: a bid bond or guarantee, a performance bond, and a payment bond. The purpose of these bonds is to ensure bidders will honor their bids, complete work as contracted, and pay their subcontractors and suppliers.

<sup>19</sup>Chillicothe MHA met the obligation deadline by awarding a contract on March 10, 2010, and Trumbull MHA met the obligation deadline by awarding a contract on March 5, 2010.

As a result of these remote and on-site reviews, HUD officials informed us they found several instances of possible noncompliance with Recovery Act and other federal requirements at housing agencies that they corrected without an adverse affect on these agencies' ability to obligate their Recovery Act funding. For example, HUD officials stated that they found one smaller housing agency which had little experience using capital funding for construction, that did not believe it had to comply with Davis-Bacon requirements—but it was brought back into compliance by HUD. They also found one housing agency that was trying to move expenses from a regular capital fund grant to the Recovery Act formula grant which HUD staff corrected and kept them in compliance with the supplement-not-supplant requirement.<sup>20</sup> HUD officials also stated that they identified compliance issues with housing agency procurement polices through their reviews. For example, they found problems with the contract file retention requirements at one housing agency that were corrected during a follow-up review.

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### Recipient Reporting by One Housing Agency Found to Be Consistent with OMB and HUD Guidance

We met with Dayton MHA during April 2010 to discuss how they calculated and documented the jobs estimate they reported to FederalReporting.gov for the reporting period that ended March 31, 2010. Agency officials told us that they reported a full-time equivalent (FTE) jobs estimate of 20.87 for this reporting period. We reviewed the methodology and documentation from contractors that they used to calculate the jobs number and found it to be consistent with the existing OMB and HUD guidance for estimating jobs.

However during the course of our review we made note of apparent limitations in OMB and HUD guidance that may have influenced the FTE estimate that Dayton MHA reported. Dayton MHA officials stated they only require contractors that they have awarded Recovery Act project contracts to report hours worked for individuals they directly employ and who are working on Recovery Act projects. Dayton MHA officials said these reporting requirements do not require reporting of any hours worked by

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<sup>20</sup>Supplement-not-supplant Recovery Act provisions are designed to prevent recipients, such as public housing agencies, from substituting planned spending for a given program with Recovery Act funds—that is, the provisions ensure that the increased federal spending will supplement rather than replace state, local, or private spending. HUD must institute measures to ensure Recovery Act funds will supplement, not supplant, expenditures from other sources. To meet this requirement, HUD is requiring public housing agencies to sign an amendment to their annual contributions contracts.

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employees of subcontractors who are performing work on Recovery Act funded projects. In the absence of specific requirements for reports from subcontractors showing the hours worked on Recovery Act projects, the reporting on Recovery Act employment impact is limited.

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## Recovery Act Investments in Affordable Housing in Ohio

The Recovery Act established two funding programs that provide capital investments in low income housing tax credit (LIHTC) projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Section 1602 Tax Credit Exchange Program (Section 1602 Program)<sup>21</sup> administered by the U.S. Department of the Treasury. Both programs were designed to fill financing gaps in planned low-income housing tax credit projects and jumpstart stalled projects. Ohio was allocated approximately \$201.6 million for these two programs with the Ohio Housing Finance Agency (OHFA) responsible for administering the funding. We met with OHFA officials in March 2010 to discuss the design of their TCAP and Section 1602 Programs, implementation challenges, program status, and expected results.

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## Almost All TCAP and Section 1602 Program Funding in Ohio Has Been Committed to Projects

An OHFA official stated that they received a total of 92 applications totaling more than \$236 million in requested TCAP and Section 1602 Program assistance, approximately \$34.5 million more than the funding available for award. As of April 30, 2010, OHFA has pledged to support 72 projects, committed approximately 85 percent of the funds available—or about \$171 million, and disbursed approximately 12% of these funds—or about \$25 million. OHFA met the February 2010 requirement of committing 75 percent of its TCAP funding and has 8 more projects that it plans to commit funding to by July 2010. Once all its Recovery Act funds are committed, OHFA estimates it will support the construction of 3,966 affordable housing units though 80 projects.

OHFA officials primarily used Section 1602 Program funds to fill financing gaps for projects that were able to maintain some level of investor commitment, but OHFA officials said they still plan to award Section 1602

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<sup>21</sup>Pursuant to the Recovery Act, GAO is to review the use of funds of programs included under the act's Division A. TCAP is a Division A program while the Section 1602 Program is included under Division B of the Recovery Act. GAO chose to include the Section 1602 Program in its review because both TCAP and Section 1602 Programs supplement the Low Income Housing Tax Credit Program and are being implemented simultaneously by state housing finance agencies.

Program funds to six projects with no private investor involvement. OHFA provided large bridge loans with TCAP funds to projects that were already using other federal financing because these projects were prepared to comply with federal requirements such as environmental reviews and Davis-Bacon prevailing wages. Compliance with these requirements is not required by the standard LIHTC program or the Section 1602 Program. In addition, OHFA's Recovery Act plan is supplemented by a \$75 million proprietary investment fund with the Ohio Capital Corporation for Housing and Nationwide Insurance. OHFA officials explained that this fund has been particularly helpful in financing stalled projects, especially those in rural areas and other tougher to serve markets and will facilitate the development of 16 projects awarded 2007 and 2008 LIHTCs by purchasing the tax credits at an average purchase price of 70 cents on the dollar.

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### OHFA Overcomes Declining Investor Interest and TCAP and Section 1602 Program Implementation Challenges

The TCAP and Section 1602 Program were designed to address the gap in financing created by the decline of private investor demand for LIHTCs and the resulting low tax credit prices. First, there was a large decline in private investor interest in LIHTCs with average purchase prices at closing for tax credits decreasing from \$0.91 per dollar tax credit in 2007 to \$0.68 per dollar tax credit in 2009. This decline in prices resulted in major gaps in LIHTC project financing. Specifically, OHFA reported that construction for 35 LIHTC financed projects in the state had been put on hold because investors were no longer interested in financing these projects.

In designing its program, OHFA officials said they faced a number of challenges. Two significant challenges resulting from provisions unique to the Recovery Act that they have had to overcome are:

- OHFA estimated the TCAP and Section 1602 Programs resulted in a 5 percent increase in administrative costs for the environmental reviews and additional project underwriting work and necessitating OHFA operate the two programs at a loss in the current budget year.
- Environmental impact studies were required for all TCAP projects funded under the Recovery Act provisions.<sup>22</sup> OHFA worked with a

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<sup>22</sup>TCAP projects are required to comply with the National Environmental Policy Act (NEPA). Project owners must conduct environmental assessments, which are not required by projects funded under the regular LIHTC program.

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vendor and Ohio Department of Development to process these studies and reduce the review period to 3 months from the approximately 6 months to complete that were scheduled.

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## Recovery Act Funds Continue to Provide Some Needed Support to Local Governments in Ohio

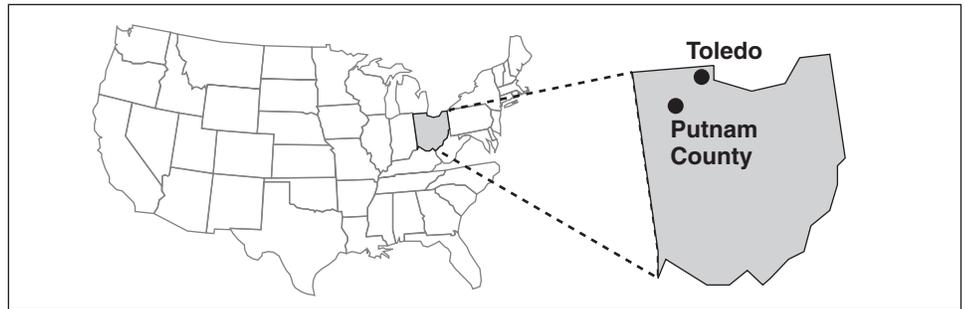
In Ohio, the state and some localities continue to feel the effects of the economic downturn and reduced revenues. As we have previously reported, the state's 2010-2011 biennial budget assumes a significant reduction in revenues. Although the state's monthly financial reports indicate that revenue collections are lower than forecast, senior budget officials told us that the economy is showing signs of stability and that revenue collections are meeting expectations. State budget officials do not expect to have to make revisions to the budget for the remainder of the biennium.

As we have previously reported, Ohio's 2010 – 2011 biennial budget, passed in July 2009, appropriated \$7.6 billion in Recovery Act funds for use by state agencies. Some state agencies will need to seek approval from the state's Controlling Board to transfer unspent and unencumbered funds into fiscal year 2011 (July 1, 2010 to June 30, 2011).<sup>23</sup> In addition, according to a senior budget official new grants awarded to the state must be approved through the Controlling Board as well. The state was recently awarded a \$400 million grant funded by the Recovery Act for Intercity Passenger Rail. The Controlling Board has appropriated \$25 million for final environmental and detailed design but has not considered an appropriation for the rest of the funds. We revisited two of the communities we reported on previously—the city of Toledo and Putnam County—and found they continue to face fiscal challenges. Table 4 highlights the change in unemployment rate in those communities, while table 5 shows the amount of Recovery Act funding each community has received.

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<sup>23</sup>According to the Ohio Office of Budget and Management, the Controlling Board provides legislative oversight over certain capital and operating expenditures by state agencies and has approval authority over various other state fiscal activities including, among other things, appropriation releases for capital construction projects and the transfer of appropriation authority between line items within a fund in an agency and increases in appropriation authority in some funds.

**Figure 3: Map of Ohio**



Source: Art Explosion.

**Table 4: Unemployment Rates in Ohio and for Selected Localities in the State**

Locality	Unemployment rate, March 2009	Unemployment rate, March 2010	Percentage change
Statewide	10.0%	11.5%	+1.5
City of Toledo	12.2	13.3	+1.1
Putnam County	12.2	11.7	-0.5

Source: GAO Analysis of U.S. Department of Labor, Bureau of Labor Statistics data.

Notes: Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

**Table 5: Amount of Funding Received by Selected Localities in Ohio**

Locality	Recovery Act funds received	General fund budget
City of Toledo	\$48,799,726	\$218,543,175
Putnam County	1,592,902	8,777,548

Source: City of Toledo and Putnam County government officials and Area 7 Workforce Investment Board.

**Localities Use Recovery Act Funds to Finance Specific Projects and Provide Some Fiscal Relief**

At the localities we visited, recent Recovery Act awards went to specific projects that were not funded from the general fund. In December 2009, for example, we found that these communities were using Recovery Act funds to address shortfalls in their public safety budgets. Putnam County used Recovery Act funds to enable law enforcement personnel to return to an 80-hour biweekly pay period; officials told us that budget concerns had forced the Sheriff’s Department to adopt a reduced 72-hour pay period. Likewise, in Toledo, officials told us budget distress affected the city’s public safety personnel, requiring lay-offs and proposed lay-offs. Recovery

Act funding allowed the city to recall those workers affected and to prevent additional job losses.<sup>24</sup>

In addition, Toledo is using Recovery Act funds to start or expand projects that are not funded through its general fund budget. For example, Toledo will use a Department of Homeland Security Recovery Act grant to build a new fire station; fire department officials said that the department has recognized the need for a new station for more than 20 years. City officials added that the Recovery Act grant is making it possible to build this new station to meet the needs of the community, in particular the station will house equipment used by an 18-county area in northwest Ohio. Since December 2009, Toledo has received additional awards for nongeneral fund projects. Table 6 provides the sources of Recovery Act funds provided since December 1, 2009 and not included in our December 2009 report. Toledo officials told us that they will use funds from the Neighborhood Stabilization Program 2 to remove 127 housing units and replace them with a mix of affordable housing and market-rate housing. Additionally, funds will be used to convert a vacant commercial building into housing. In Putnam County, additional Recovery Act Workforce Investment Act of 1998 (WIA) funds were provided to the county to provide for further worker assistance. The county was part of a regional coalition that applied to the state for an Edward Byrne Memorial Justice Assistance Grant (JAG) pass-through grant to fund an offender re-entry program designed to help former inmates successfully transition back into society following completion of their sentence. That application, however, was not approved and the program will not be launched.

**Table 6: Recovery Act Funds Received by Putnam County and Toledo Since December 2009**

Locality	Program	Amount approved	Services the funding supports
Toledo	Neighborhood Stabilization Program 2	\$10,150,840	Housing assistance
Toledo	Clean Water State Revolving Fund	1,622,771	Infrastructure
Putnam County	Workforce Investment Act of 1998	171,767	Worker assistance
Putnam County	Impact on Child Support Incentives Program	21,388	Child support enforcement

Source: City of Toledo and Putnam County government officials and Area 7 Workforce Investment Board.

<sup>24</sup>Toledo was able to recall 31 police officers who had been laid off in May 2009, as well as 6 civilian 911 emergency call center staff previously laid off in 2009. For further information, see GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability (Ohio)*, [GAO-10-232SP](#) (Washington, D.C.: December 2009).

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In addition to the grants, Toledo issued \$12.2 million in Build America Bonds<sup>25</sup> for the purchase of solid waste trucks. A city official told us that through the issuance of these bonds, the city expects to save approximately \$600,000 over the life of the bonds using Build America Bonds instead of traditional municipal bonds. Although the city has the ability to issue additional Build America Bonds, a city official told us that the city has no plans to do so in order to avoid taking on additional debt.

We recently reported on ways in which the Build America Bond program could be made more transparent and that currently available bond data do not show with specificity how bond proceeds are used.<sup>26</sup> We recommended that the Commissioner of Internal Revenue take action to require governmental issuers to submit additional information on Build America Bond-financed projects, including information on project purpose, beginning and ending dates, and costs, and if Congress granted the Internal Revenue Service the authority, publish the information. Toledo officials said this information is collected when the bonds are issued and would not represent a reporting burden if the issuers were required to report this on the uses of these bond proceeds.

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## Local Governments Continue to Face Fiscal Challenges

Both the city of Toledo and Putnam County continue to face economic and budget challenges. Along with an increase in unemployment, officials in both communities told us that the fiscal condition in those communities has not improved. Putnam County officials told us that further budget cuts in 2010 may be necessary in order to balance the budget. The county has kept in place the wage freeze and hiring freeze enacted in 2009, along with other cost savings measures taken last year. In Toledo, officials told us that an estimated budget deficit of \$20 million in October 2009 had grown to almost \$50 million by January 2010. Officials blamed the deficit, in part, on revenue shortfalls, especially personal income tax revenue. On March

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<sup>25</sup>Build America Bonds (BABs) are taxable government bonds that can be issued with federal subsidies for a portion of the borrowing costs delivered either through nonrefundable tax credits provided to holders of the bonds (tax credit BAB) or as refundable tax credits paid to state and local governmental issuers of the bonds (direct payment BAB). Direct payment BABs are a new type of bond that provides state and local government issuers with a direct subsidy payment equal to 35 percent of the bond interest they pay.

<sup>26</sup>GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, [GAO-10-349](#) (Washington, D.C.: February 10, 2010).

30, 2010, the Toledo City Council approved a budget for 2010 that is approximately 9 percent smaller than last year's.

Continued economic challenges may create difficulties for Toledo and Putnam County to continue programs and sustain personnel funded with Recovery Act dollars. Officials in Putnam County told us that they are seeking additional sources of funding in order to prevent possible lay-offs within the Sheriff's Department; in 2009 the county received \$1,054,697 million in Recovery Act funds and is using those funds to pay the salaries and benefits of Sheriff's deputies and corrections officers. Likewise, in Toledo, city officials said the recently enacted budget does not provide general funds to support two prosecutors that are currently being funded with Recovery Act funds. City officials in Toledo also noted that the general fund budget could not sustain the types of projects currently being funded by the Recovery Act. For example, the size and scope of home demolition and rebuild funded by the Neighborhood Stabilization Program Recovery Act funds would have to be reduced under the current budget constraints if additional federal funding were not available.

On the other hand, Toledo city officials said they were planning to retain 31 police officer positions currently being funded with Recovery Act funds. The city anticipates 36 retirements from the approximately 580 member police force in 2011 providing the city with enough flexibility to retain the Recovery Act-funded positions and start a new cadet class in the fall of 2010.

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## Ohio's Audit Community Collaborates to Monitor Recovery Act-Funded Programs

There are a number of oversight entities in Ohio with responsibility for monitoring Recovery Act-funded projects, namely the (1) State Audit Committee, (2) Office of Budget and Management (OBM), Office of Internal Audit (OIA), (3) Auditor of State (AOS), and (4) state-appointed Deputy Inspector General for Recovery Act funds. These entities work in conjunction with one another to monitor Recovery Act-funded projects. For example, OIA assists the State Audit Committee with its responsibilities by furnishing it with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed, and by promoting effective control at a reasonable cost. We contacted officials from these entities to discuss their most recent, ongoing, and planned audit results. The State Audit Committee meets quarterly and released on March 9, 2010, the results of six recently audited programs. Currently, the OIA is planning the fiscal year 2011 audits to be presented to the State Audit Committee in June. The state of Ohio participated in OMB's Single Audit pilot program, and the AOS audited 2

programs, in which an interim internal control report was to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits.<sup>27</sup>

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### Extensive Work Being Conducted by State Accountability Entities in Ohio

The Ohio Auditor of State is planning to issue its fiscal year 2009 Single Audit for Ohio at the end of June 2010.<sup>28</sup> An official from the Auditor of State's office said they were not able to meet the original reporting date of March 31, 2010, due to not receiving fiscal year 2009 financial statements from management until February 1, 2010, as well as the fiscal year 2008 audit finishing up late due to a similar delay the previous year. In addition to the Single Audit work, AOS is conducting interim audit work over controls and compliance at various state agencies and local governments. For example, during fiscal year 2010, AOS plans to test various Recovery Act programs in eight cities.<sup>29</sup> AOS has completed 10 of these audits and another 142 are ongoing with several of them expected to be completed by June 2010.

According to an agency official, Ohio's Office of Inspector General (OIG) does not conduct audits; however, it does conduct investigations of potential criminal activity. During the past several months, the OIG completed two investigations involving Recovery Act funds and an OIG official said a third investigation is still ongoing. One of the completed investigations involved the application of Buy American provisions to a Clean Water SRF construction project financed with Recovery Act funding. The OIG concluded that Buy American requirements may not have been met and recommended that Ohio EPA consult with the U.S.

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<sup>27</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

<sup>28</sup>The State of Ohio's fiscal year runs from July 1 to June 30 of the next calendar year.

<sup>29</sup>Audits for fiscal year 2010 include the City of Athens, Canton, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown.

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EPA to review and make a compliance determination.<sup>30</sup> As of May 5, 2010, the agencies have not responded to the OIG's report. The second completed investigation involved Recovery Act funding provided by ODOT to a local government for a highway construction project. It was alleged that ODOT's policies and actions in this case caused the local government managing the construction project to incur additional costs but the OIG found that no wrongful act or omission was made by ODOT.<sup>31</sup> Recently, on March 16, 2010, the OIG initiated an investigation against ODOT regarding a potential misuse of public funds for a road construction project, but determined that no wrongful act or omission had occurred.

Ohio's OBM Office of Internal Audit (OIA) recently completed six Recovery Act audits which were released on March 9, 2010. Audit findings in several areas were reported, including program administration and monitoring, the review of expenditures, subrecipient monitoring, and the validation of Recovery Act reporting data for the programs that were included in these reviews. OIA plans to complete another three audits of Recovery Act funded programs by June 2010 and continue to follow up on 12 comments from previous completed audits that affected agencies are expected to address by June 2010. OIA is compiling a list of planned audits for fiscal year 2011 and other internal audit plans, which will be presented in June 2010 to their governing body, the State Audit Committee, for review and comment.

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### Ohio Begins Work under the Recovery Act Single Audit Internal Control Project

OMB implemented a Single Audit Internal Control Project (project) in October 2009. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken. The project is a collaborative effort between the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the

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<sup>30</sup>On November 30, 2009, the Ohio Inspector General's Office (OIG) received a complaint alleging that Ohio EPA failed to fulfill its oversight and monitoring responsibilities with respect to ARRA's "Buy American" requirements.

<sup>31</sup>On October 13, 2009 the OIG received a complaint alleging that 1) ODOT caused the City of Bucyrus to incur additional charges by wrongfully revoking its prior decision to permit the city to use its design engineer as the construction project engineer, 2) ODOT's policies caused the City of Bucyrus to incur \$102,000.00 In change orders submitted by the project contractor, Anderzack-Pitzen Company, Inc.

Single Audit Act and OMB Circular No. A-133 for Single Audits. Sixteen states<sup>32</sup> volunteered for the project, including Ohio, whose auditors issued their interim reports on internal control for selected major Recovery Act programs by December 31, 2009, and the corrective action plans to the appropriate federal agency by January 31, 2010.

As part of this project, Ohio's Auditor of State (AOS) examined two Recovery Act funded programs: (1) unemployment insurance funding disbursed by the Ohio Department of Job and Family Services (ODJFS), and (2) highway planning and construction funding disbursed by the Ohio Department of Transportation (ODOT). AOS' review of the unemployment insurance funding showed that ODJFS did not accurately identify the expenditure of more than \$350 million in Recovery Act funding for benefit payments. Instead ODJFS incorrectly combined \$313 million in Recovery Act funded benefit payments with non-Recovery Act funded benefits payments resulting in reporting errors in the draft financial statements for the program. As a result of this AOS audit finding, ODJFS has taken several corrective actions to increase assurance that Recovery Act funds for unemployment benefits will be reported correctly through the duration of the program.

The second AOS audit found that ODOT did not have procedures in place to identify, at the time of payment, the amount of Recovery Act funding disbursed to local governments who are locally administering transportation projects funded by the Recovery Act.<sup>33</sup> Without such procedures, adequate transparency into the use of Recovery Act funding at local levels may be impaired. In response to this audit finding, ODOT enhanced the department's Web-based construction project management system to identify the portion of Recovery Act funds for each disbursement when applicable. In addition ODOT has provided guidance to each local participating agency on how to access the applicable data within the Web-based system and the importance and requirements to do

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<sup>32</sup>The following 16 states volunteered to participate in the project: Alaska, California, Colorado, Florida, Georgia, Louisiana, Maine, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Virginia.

<sup>33</sup>As permitted by the Federal Highway Administration (FHWA), ODOT may let a Local Public Agency (LPA) perform work on a Federal-aid project as long as certain conditions are met which include: 1) All Federal requirements must be met; 2) the LPA must be adequately staffed and suitably equipped to undertake and satisfactorily complete the work; and 3) the LPA must provide a full-time employee to be in responsible charge of the project. See 23 CFR 635.105.

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so to obtain correct expenditure data for each Recovery Act project under its control.

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## State Comments on This Summary

We provided the Governor of Ohio with a draft of this appendix on May 6, 2010. Representatives of the Governor's office responded with a number of technical comments that we have incorporated as appropriate. In addition, the Governor's office provided more detailed comments on our analysis of the Clean Water and Drinking Water State Revolving Funds and the state's plan for monitoring the State Fiscal Stabilization Fund (SFSF). We summarized the state's comments in the section of this appendix for those programs.

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## Staff Acknowledgments

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# Appendix XVI: Pennsylvania

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## Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of the American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in Pennsylvania. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at <http://www.gao.gov/recovery>.

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## What We Did

Our work in Pennsylvania focused on specific programs funded under the Recovery Act, as shown in table 1. These programs were selected primarily because they received significant amounts of Recovery Act funds. For most programs, we collected relevant documentation and interviewed program officials to review the status of the program's funding, how funds are being used, and issues specific to each program. For the public housing and education programs, we provide updated funding information. For descriptions and requirements of the programs covered in our review, see appendix XVIII of [GAO-10-605SP](#).

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**Table 1: Programs Reviewed**

Program	Rationale for selection
Weatherization Assistance Program	Recovery Act provided a significant increase in funding, and local agencies received cash advances in November 2009 to begin weatherization work. This program is identified by the state Bureau of Audits as a high-risk recipient of Recovery Act funds; a 2007 state Auditor General audit identified oversight problems in the program.
Transportation programs	The Highway Infrastructure Investment, Transit Capital Assistance, and Fixed Guideway Infrastructure Investment programs faced 1-year obligation of funds deadlines in March 2010.
Clean Water and Drinking Water State Revolving Funds	These programs faced 1-year deadline for awarding all contracts by February 2010. These programs are identified by state Bureau of Audits as high-risk recipients of Recovery Act funds.
Low-Income Housing Tax Credit assistance programs	Begin monitoring Tax Credit Assistance Program (TCAP) and Section 1602 Exchange Program. (Section 1602 Program). Pursuant to the Recovery Act, GAO is to review the use of funds of programs included under the Act's Division A. TCAP is a Division A program while the Section 1602 Program is included under Division B of the Recovery Act. GAO chose to include the Section 1602 Program in its review because both TCAP and Section 1602 Program supplement the Low Income Housing Credit Program and are being implemented simultaneously by state housing finance agencies.
Public Housing Capital Fund	Provide updated information on Public Housing Capital Fund formula grants which had a 1-year deadline for obligating all funds by March 2010.

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<sup>1</sup>Pub L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

Program	Rationale for selection
Education programs	Provide updated information on progress in spending for three Recovery Act programs allocated by the U.S. Department of Education (Education): State Fiscal Stabilization Fund (SFSF); Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA); and Part B of the Individuals with Disabilities Education Act, as amended (IDEA). Pennsylvania began disbursing SFSF funds to local educational agencies in March 2010.
Justice programs	Review Edward Byrne Memorial Justice Assistance Grants (JAG) and COPS Hiring Recovery Program (CHRP). Pennsylvania has begun awarding JAG funding.

Source: GAO.

We continued to track the state’s fiscal condition and also visited four local governments—the cities of Allentown and Philadelphia as well as the counties of Dauphin and York—to discuss the amount of Recovery Act funds each expects to receive and how those funds will be used. We also contacted state and local auditors about oversight and auditing of Recovery Act spending in Pennsylvania.

## What We Found

**Weatherization assistance program.** Pennsylvania received \$252.8 million in Recovery Act weatherization funds to be spent by March 31, 2012. As of May 7, 2010, \$56.5 million has been spent to weatherize 5,446 homes—about 38 percent of the state’s target to weatherize 14,355 homes by September 30, 2010, and about 18 percent of its overall target to weatherize 29,700 homes by March 31, 2012. Pennsylvania has begun to address key weaknesses in its monitoring of weatherization agencies by revising its monitoring procedures and hiring additional monitors. Pennsylvania chose to set a deadline to train and certify all weatherization workers by July 1, 2010, but does not have a process for enforcing the deadline.

**Transportation programs.** Pennsylvania met the 1-year Recovery Act deadline for obligating highway funds by having the federal government obligate all of its \$1.026 billion apportionment. According to the Federal Highway Administration, as of May 3, 2010, Pennsylvania has awarded 329 contracts. Of those, 254 are under construction and 96 contracts are substantially complete, representing \$124.1 million. State officials told us that the Recovery Act has provided funding for projects, including construction of transit facilities—such as an intermodal transit center in Butler, Pennsylvania—and repairing structurally deficient bridges, that otherwise would not have been completed at this time. Because of lower-than-expected revenues supporting transportation, Pennsylvania may face challenges in meeting its Recovery Act maintenance-of-effort requirement.

**Clean and Drinking Water State Revolving Funds.** Pennsylvania used its approximately \$220.9 million in Recovery Act funds together with about \$272.0 million in base program and other state funds to help pay for 87 Clean Water projects, such as building a new wastewater treatment plant in Mount Carmel, Pennsylvania, and 26 Drinking Water projects, such as replacing aging water mains in Hazleton, Pennsylvania. Combining funding sources allowed Pennsylvania to fund more projects while meeting a February 17, 2010, deadline. However, this increased the number of subrecipients that must comply with Recovery Act reporting as well as Davis-Bacon and other requirements.

**Low-Income Housing Tax Credit Assistance Programs.** Pennsylvania received \$95.1 million in Tax Credit Assistance Program (TCAP) funds and \$229.9 million in Section 1602 Tax Credit Exchange Program funds (Section 1602 Program). As of April 27, 2010, Pennsylvania awarded \$81 million in TCAP funds and \$209.8 million in Section 1602 funds for 52 projects, including building 96 units for the elderly in Stewartstown, Pennsylvania, and rehabilitating 24 units of family housing in Allentown, Pennsylvania. As of May 5, 2010, Pennsylvania had spent about \$19.7 million in TCAP funds and about \$77.3 million in Section 1602 Program funds.

**Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development (HUD) has allocated about \$212 million in Recovery Act funding to 82 public housing agencies in Pennsylvania. All met the Recovery Act requirement to obligate their funds within 1 year of the date they were made available. Based on information available as of May 1, 2010, about \$83.7 million (39 percent) had been drawn down by 80 agencies.

**Education programs.** In March 2010, Pennsylvania began to distribute the \$655 million in State Fiscal Stabilization Fund (SFSF) funds it awarded to local educational agencies (LEA) and by March 31, 2010, almost all LEA subrecipients received their disbursements for state fiscal year 2009-10. According to the U.S. Department of Education, as of April 16, 2010, Pennsylvania has drawn down \$156.5 million of \$400.6 million in Recovery Act funds awarded for Title I, Part A of the Elementary and Secondary Education Act of 1965 as amended (ESEA), \$151.8 million of \$441.7 million in Recovery Act funds awarded for Part B of the Individuals with Disabilities Education Act, as amended (IDEA) and \$453.6 million of \$1.0 billion awarded of SFSF education stabilization funds. For example, the SFSF funds were used to support salaries and benefits for the School

District of the City of York and Kutztown University of Pennsylvania and to make debt payments for the Reading School District.

**Justice programs.** The Department of Justice (DOJ) provided Pennsylvania with more than \$72 million in Recovery Act Edward Byrne Memorial Justice Assistance Grant program (JAG) grants. DOJ awarded \$45 million directly to the state, part of which was passed on to localities, and \$27 million directly to localities across Pennsylvania. Localities are using JAG funds for a range of public safety purposes, including the purchase of law enforcement equipment and information technology, as well as the hiring of court and victim services personnel. DOJ also awarded about \$20.2 million in COPS Hiring Recovery Program funds to 19 Pennsylvania localities, including \$10.9 million to Philadelphia to hire 50 officers, \$1.7 million to Harrisburg to hire 8 officers, and \$7.6 million to 17 other localities to hire 35 officers.

**State fiscal condition.** Despite receiving over \$2.7 billion of Recovery Act funds for budget stabilization for state fiscal year 2009-10 and exhausting its Rainy Day Fund, Pennsylvania has a general fund revenue shortfall of \$1.1 billion as of May 1, 2010. The proposed budget for state fiscal year 2010-11 assumes lower revenues and continues to use Recovery Act funds for budget stabilization. The Governor has proposed creating a stimulus transition reserve fund with new tax measures to address future budget deficits when the Recovery Act funds end.

**Localities' use of Recovery Act funds.** The City of Allentown and York County had been awarded \$3.7 million and \$11.4 million, respectively. Dauphin County expected to receive \$7.5 million. As of March 31, 2010, Philadelphia has received \$216 million. These four localities are using Recovery Act funds for onetime projects, such as installing energy efficiency improvements in public facilities and providing temporary rent and utility assistance to prevent homelessness.

**Accountability and oversight.** Pennsylvania's Accountability Office oversees and reports on Recovery Act activities for state agencies and has issued performance measures tracking Recovery Act spending and projects. The state's Bureau of Audits has evaluated programs receiving Recovery Act funds to determine those at high risk and has initiated selected reviews on high-risk programs, including the state's Recovery Act weatherization program. The state Auditor General's office is auditing

select Recovery Act spending, including highway and bridge projects, as part of the ongoing 2009 Single Audit.<sup>2</sup>

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## Pennsylvania Is Making Progress on Its Spending and Production Targets, but Challenges to Effectively Monitoring Local Weatherization Agencies Remain

Under the Recovery Act, the Pennsylvania Department of Community and Economic Development (DCED)—the agency that administers the state’s Weatherization Assistance Program—will receive \$252.8 million in funds to be spent by March 31, 2012. DCED will retain up to \$8.3 million for program management and oversight and will spend up to \$20 million for worker training. DCED awarded contracts—for a total award value of \$224.5 million—to 43 weatherization agencies, including community action agencies, nonprofit agencies, and local governments. We visited three local weatherization agencies—ACTION-Housing, Inc. (ACTION) in Pittsburgh; York County Planning Commission (York) in York County; and the Energy Coordinating Agency (ECA) in Philadelphia.<sup>3</sup> Weatherization agencies use their funds to make homes more energy efficient by repairing or replacing furnaces, caulking windows and sealing leaks in walls, insulating attics, replacing inefficient refrigerators and light bulbs, and educating clients about energy-saving measures.

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## Status of Pennsylvania’s Recovery Act Weatherization

As of May 7, 2010, 5,446 homes had been weatherized, representing about 38 percent of DCED’s latest target to weatherize 14,355 homes by September 30, 2010.<sup>4</sup> Overall, DCED expects to weatherize about 29,700 homes by March 31, 2012. Since work began in November 2009,

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<sup>2</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity’s compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

<sup>3</sup>We selected these three local agencies based on their location, size of the agency’s Recovery Act weatherization funding and production targets, whether the agency is a local government or community action agency, and whether the agency used in-house staff or contractors for weatherization work.

<sup>4</sup>Based on production to date, DCED has lowered its September 30, 2010 production targets by nearly 2,500 homes.

Pennsylvania's 43 weatherization agencies have spent \$57.9 million (about 52 percent) of their \$111.0 million first year budget.

Progress made by local weatherization agencies varied. As of May 7, 12 agencies had weatherized 50 percent or more of their September 30, 2010, production targets, but two agencies had not completed any weatherization work. The Pennsylvania Housing Finance Agency received its award in February 2010, and had 2,477 homes in progress as of May 7, 2010. One agency could not meet production targets and was replaced; the new agency was awaiting the award of its contract. Two other agencies were not meeting their production targets and were asked to voluntarily return a portion of their Recovery Act allocation to DCED to be redistributed among neighboring agencies.<sup>5</sup> Table 2 shows the percentage of funds spent and homes weatherized by the three agencies we visited, as of May 7, 2010.

**Table 2: Percentage of Funds Expended and Homes Weatherized for Three Agencies Visited, as of May 7, 2010**

Weatherization agency	Award amount (millions)	Percentage drawn down	Homes weatherized	Homes to be weatherized		Percentage of progress toward targets	
				9/30/2010 target	3/31/2012 target	9/30/2010 target	3/31/2012 target
ACTION-Housing Inc.	\$15.3	25	421	1,014	2,200	42	19
Energy Coordinating Agency	\$13.9	25	335	745	1,650	45	20
York County Planning Commission	\$4.3	23	73	235	606	31	12
Pennsylvania weatherization agencies' total	\$224.5	25	5,446	14,355	29,700	38	18

Source: GAO analysis of DCED data.

Although initial production was slower than expected, DCED expects to reach its March 2012 production goals. According to Pennsylvania's state weatherization plan, agencies that do not meet their production targets, or that do not expend at least 50 percent of their total Recovery Act allocation by September 30, 2010, may be replaced or have their funding adjusted by DCED, in a manner consistent with applicable U.S. Department of Energy (DOE) regulations. DCED requires agencies to

<sup>5</sup>A DCED official said that the neighboring agencies will use the funds to weatherize homes that were planned for the original agencies' service areas.

enter weekly production data into the Hancock Energy Software, a Web-based reporting system, so that DCED can track agency production. DCED has temporarily blocked funding to agencies that have not entered production information into the system until they comply with weekly production reporting requirements.

In its weatherization plan, Pennsylvania committed to reduce energy usage by the equivalent of what it might take to power about 7,000 homes per year. In November 2009, DCED commissioned Pennsylvania State University to develop a system for data reporting and annual program evaluation, including analyses of the energy savings for each weatherization agency and the cost-effectiveness of individual weatherization measures. The data reporting system is expected to produce evaluation results for each year of Recovery Act funding from fiscal years 2009-10 through 2011-12.

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### Pennsylvania Has Begun to Address Key Weaknesses in Its Monitoring of Weatherization Agencies

Given that DCED intends for weatherization agencies to spend at least half of their total Recovery Act allocations by September 30, 2010, we reviewed DCED's existing monitoring program to see what DCED knew about the quality and effectiveness of the work being performed by its weatherization agencies. In 2007, Pennsylvania's Auditor General reported that the weatherization program had, among other things, weak internal controls, weaknesses in contracting, and inconsistent verification and inspection of subcontractor work.<sup>6</sup> We reviewed DCED's *Monitoring Guidelines and Procedures* and associated inspection forms, met with the three existing monitors, and reviewed DCED's monitoring reports for fiscal years 2006-07 through 2008-09 for ACTION, York, ECA, and two other agencies.

We found that DCED did not consistently follow DOE guidance for state weatherization programs or Pennsylvania's monitoring guidelines. For example, DCED did not monitor every weatherization agency at least once each year, and some monitoring reports did not contain evidence that all of the required areas were monitored. Furthermore, not all monitoring findings identified in the monitoring reports were transmitted to local agencies. Some agencies did not respond to DCED with corrective actions,

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<sup>6</sup>Pennsylvania Department of the Auditor General, *A Special Performance Audit of the Department of Community and Economic Development's Weatherization Assistance Program*, August 2007.

and DCED did not always follow up to assess the corrective action by those agencies that responded.<sup>7</sup> Table 3 provides details and examples of weaknesses in DCED’s monitoring of five agencies we reviewed.

**Table 3: DCED’s Monitoring Weaknesses regarding Adherence to DCED and DOE Policies**

DOE requirement for state weatherization program monitors	DCED monitoring guidelines for meeting DOE requirement	Examples of weaknesses in the monitoring reports for five agencies
Annually monitor and assess the performance of local weatherization agencies.	Routine program monitoring be conducted a minimum of twice during the program year.	<ul style="list-style-type: none"> <li>• None of the five agencies had been monitored more than once per year.</li> <li>• Four of the agencies did not receive an annual monitoring visit during 1 of the past 3 program years.</li> </ul>
Have a guide for monitoring local agency performance that includes all areas found in the local agency’s contract with the state.	Monitoring guidelines describe the major components of the monitoring process, which include a review of client eligibility and documentation; inspection of completed units; and a review of inventory control and property maintenance, administrative and fiscal procedures, and local agency quality control procedures.	<ul style="list-style-type: none"> <li>• Two agency monitoring reports for program year 2007-08 had no evidence that the monitor had looked at fiscal and budget management procedures.</li> <li>• One monitoring report from program year 2008-09 stated that the local agency did not have adequate quality control procedures but did not specify the types of quality control problems found.</li> <li>• One monitoring report summary for program year 2008-09 stated that client files were prepared in accordance with the DCED guidelines; however, in the body of the report the monitor made numerous findings of missing or incomplete items during the client file review.</li> </ul>

<sup>7</sup>The 2007 Pennsylvania Auditor General report found that DCED did not always verify if local agencies had remedied findings DCED had identified.

DOE requirement for state weatherization program monitors	DCED monitoring guidelines for meeting DOE requirement	Examples of weaknesses in the monitoring reports for five agencies
Raise and resolve all perceived and potential issues with the local agency.	Monitoring guidelines require that a final monitoring report be issued to the agency within 30 days of the monitoring visit. The letter transmitting the report contains the monitor's findings and recommendations, and requires the local agency to submit a response identifying the corrective actions taken to address the findings within 30 working days from the receipt of the report.	<ul style="list-style-type: none"> <li>• In one agency's monitoring report for program year 2004-05, the monitor found problems with the quality of the agency's furnace work and recommended that the agency's installers complete relevant training. This recommendation was not included in the transmittal letter to the agency and, consequently, was not addressed in the agency response.</li> <li>• In another agency's monitoring report for program year 2007-08, the monitor found that the agency had not consistently performed furnace testing; however, DCED's transmittal letter did not require an agency response.</li> <li>• DCED had no documentation showing that an agency had provided a corrective action plan for findings identified in the 2007-08 and 2008-09 program year monitoring reports; DCED's transmittal letter noted that some of its 2008-09 findings were repeat findings. We could find no evidence that DCED followed up with the agencies to request corrective action plans.</li> <li>• DCED replied to one agency that it was satisfied with the agency's response, but DCED files did not show that the monitors had conducted a follow-up visit to inspect what the agency had done.</li> </ul>
Inspect 5 percent of the weatherized units each year.	Monitoring guidelines required monitors to conduct routine site inspections twice per year for an unspecified selection of weatherized units.	<ul style="list-style-type: none"> <li>• The monitoring report for one agency in program year 2008-09 shows one inspection of 78 units weatherized under the DOE program; at least 4 units should have been inspected. The two other units inspected were funded under the Low Income Home Energy Assistance Program—a program funded by the Department of Health and Human Services.</li> </ul>

Source: GAO analysis, based on review of DCED's *Monitoring Guidelines and Procedures* and monitoring reports of five weatherization agencies for the past 3 years and interviews with DCED monitors.

When we reviewed these issues with DCED officials, they acknowledged that past monitoring efforts were deficient and that goals, including biannual monitoring visits and inspections of 10 percent of both in-progress and completed homes, were too ambitious given DCED's level of staffing. To increase monitoring capacity, DCED hired 8 new monitors (for a total of 10) and one new monitoring supervisor (for a total of 3). DCED also retained two consultants to evaluate DCED's monitoring capacity and recommend improvements, including ways to collect and analyze data to identify trends and effectively deploy monitoring resources. On April 30, 2010, DCED issued new monitoring guidelines and inspection tools. In its Recovery Act weatherization state plan submitted to DOE, DCED had set a goal to annually inspect 10 percent of units in progress and 10 percent of weatherized units completed, but DCED reduced those goals in its new monitoring guidelines to inspecting 3 percent of units in

progress and 7 percent of units completed. As of April 23, 2010, DCED monitors have inspected 412 units funded by the Recovery Act, or about 4 percent of the total Recovery Act units in progress or completed.

A state's monitoring program is a critical line of defense against waste of Recovery Act funds and poor quality weatherization work. While Pennsylvania has hired additional monitors and recently revised its monitoring procedures, DCED acknowledged that it is still experiencing delays in issuing monitoring reports to weatherization agencies within 30 days. As of May 13, 2010, DCED had completed monitoring reports for 26 agencies and had sent 9 of these reports to agencies within the required 30-day time frame. It is too soon to tell if the new monitoring process will detect and resolve weaknesses, such as those we observed at three local weatherization agencies.

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**File Reviews Identified  
Some Local Agency  
Weaknesses**

During our three local agency visits, we reviewed weatherization policies and procedures, interviewed agency officials, and reviewed client files for weatherized homes. We also visited four homes undergoing energy audits, three homes being weatherized, as well as six homes that had their final inspections. While visiting homes, we observed energy auditors testing furnace efficiencies and educating clients about energy saving practices. We also observed weatherization workers caulking around windows and installing insulation.

We observed weaknesses in local agency controls over documenting materials and labor costs for each house weatherized, overseeing subcontractors, and documenting final home inspections. Table 4 shows DCED's requirements for local agency controls over weatherization and examples of internal control weaknesses observed in our client file reviews and home inspections.

**Table 4: Internal Control Weaknesses Observed during Visits to Weatherization Agencies**

<b>DCED’s requirements for local agencies’ internal controls over the weatherization process</b>	<b>Examples of control weaknesses at three agencies visited</b>
Document in the client file the estimated and actual costs for materials and labor employed to weatherize the home.	<ul style="list-style-type: none"> <li>• One agency did not include certain expenses—including furnace repairs, refrigerator replacements, or chimney repairs—in its client files.</li> </ul>
If using subcontractors to perform weatherization work, ensure that the subcontractors comply with standards spelled out in DCED’s program guidelines.	<ul style="list-style-type: none"> <li>• According to officials, one agency we visited did not always follow its procedures for managing change control orders made by its subcontractors—that changes to the work done by its subcontractors should be specified in writing with detailed explanations of the changes and their costs. According to local agency officials, most changes are handled verbally, especially if they are minor—that is, below \$100. However, 8 of the 13 client files we reviewed at this agency did not contain any evidence that changes to the work order were authorized. Two of these changes were significant: a total of about \$6,000 in one case and about \$3,000 in another.</li> </ul>
Inspect 100 percent of completed units to determine compliance with the program’s quality standards and appropriateness of the measures selected, and to ensure that all reported materials are actually installed. In addition, the client files should include a quality control inspection sheet signed and dated by the inspector and the client.	<ul style="list-style-type: none"> <li>• Of the three agencies we visited, only one agency uses a quality control inspection sheet to document its final inspection. The other two agencies require the client and inspector to sign a form stipulating that the home has been inspected.</li> <li>• At one agency, we inspected the two homes the agency had completed weatherizing at the time of our visit. Several lines on the final inspection form were checked off to verify that work was completed, but we did not find any evidence on the work order that this work was required. These lines concerned the hot water heater and its access panels as well exposed water pipes. During our inspection, the homeowner told us that they had not observed work being done on the water heater, and based on our inspection, there was no evidence that the water heater closet had been open or inspected.</li> <li>• At another agency, work, such as caulking, had not been completed at two of the three completed and previously inspected homes we visited. In addition, we found some weatherization work, such as venting dryers to the outside had either not been performed or was poorly done.</li> </ul>

Source: GAO analysis, based on DCED’s *Weatherization Assistance Program Monitoring Guidelines and Procedures*, a review of client files and home visits, and interviews with weatherization agency officials.

The local weatherization agencies that we visited generally agreed with our observations and planned to address weaknesses we identified. For example, one agency has considered modifying its work order form to include final inspection check-off that each work item was done. The agency also has considered unannounced site inspections of ongoing weatherization work to ensure the quality of the work being done. Another agency agreed that written guidelines for approving changes to work orders would be helpful. The third agency planned to include a summary of material and labor costs at the front of each client file and develop a checklist to review each client file for completeness prior to closing a job. DCED officials agreed that the control environment across local agencies had been inconsistent in the past, with 43 agencies working independently

rather than as a statewide system. DCED is now collecting production and cost information from local agencies for use in trend analysis. DCED plans to identify outliers in terms of average cost per home or weatherization measures installed, such as high numbers of window replacements. DCED is developing a red-yellow-green stoplight grading system to track control weaknesses and best practices among agencies. DCED plans to standardize weatherization practices across the local agencies through directives based on lessons learned about control weaknesses and best practices.

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**DCED Has Taken Actions to Correct Noncompliance with Davis-Bacon Requirements of the Recovery Act**

In March 2010, DOE found DCED to be noncompliant with the Davis-Bacon requirements of the Recovery Act. Since weatherization work began in November 2009, not all weatherization agencies had submitted certified payrolls to DCED. Also, DCED had not reviewed weekly certified payrolls for weatherization agencies that had submitted them. DOE prohibited Pennsylvania from drawing down its remaining Recovery Act funds until the state had taken corrective action to resolve the issue and demonstrate compliance with the Davis-Bacon requirements. DCED addressed the noncompliance issue by developing procedures that include a weekly compliance payroll report template. DCED also assigned three part-time staff to review weekly wage reports on an ongoing basis. On April 22, 2010, DOE accepted these corrective actions and released the hold on Pennsylvania's Recovery Act weatherization funds.

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**Pennsylvania Aims to Train and Certify All Weatherization Workers but Does Not Have a Process for Enforcing Its July 2010 Deadline**

Whereas other states may not require certification, Pennsylvania has decided to use part of its Recovery Act funds to train and certify all weatherization installers, crew chiefs, and auditors to perform weatherization work. According to state officials, the certification is intended to provide weatherization workers with an industry-recognized credential that demonstrates requisite knowledge and skills. Pennsylvania's Department of Labor & Industry (L&I) will receive up to \$20 million in Recovery Act weatherization funds to develop a statewide training and certification program for new and incumbent weatherization workers.<sup>8</sup> L&I estimated that the state needed about 1,500 weatherization workers to meet DCED's production goals. We visited the Weatherization

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<sup>8</sup>DCED released \$10 million to L&I in November 2009. As of April 20, 2010, L&I committed \$7.1 million for training, including grants to set up the training centers, technical assistance to training providers, training vouchers for workers, and a new training and certification database.

Training Center at Penn College, as well as three new training centers in Lancaster, Philadelphia, and Pittsburgh.

L&I delayed its target date to train and certify all weatherization workers, and currently allows workers to weatherize homes if they are certified—or are on a path to certification—by July 1, 2010.<sup>9</sup> The delay resulted from challenges in setting up training centers, reviewing certification applications, and balancing training and production goals.

- Although L&I hoped to have the new centers operational by the end of 2009, the six new centers were not fully operational and offering classes until February 9, 2010. According to L&I officials, staffing the training centers with qualified instructors took longer than expected. One training provider we visited said it was a challenge to enroll new students and student retention was a concern. The provider also said that there were some unanswered questions, such as who would be responsible for the physical assessment that all potential students must pass prior to enrolling in training. According to L&I officials, staffing the training centers with qualified instructors also took longer than expected.
- L&I created an accelerated certification process that requires each existing worker to submit an application to a special review committee. As of April 28, 2010, 943 existing workers have requested to be certified based on their training, experience, or both. Because individual workers may request multiple levels of certification (installer, crew chief, or auditor), the 943 applicants requested 1,175 certifications. The committee had reviewed the applications and certified 254 requests; applicants for 276 requests will be required to pass a proficiency test or complete an accelerated training program; and applicants for 645 requests were recommended to complete the full training. Officials at one of the three training facilities that offer the proficiency test said that applicants approved for the proficiency test were not well prepared and often failed the test; they suggested that the proficiency test option should not be offered and instead those applicants should be required to complete the accelerated training.

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<sup>9</sup>Pennsylvania's weatherization training plan had set a goal of November 1, 2009, and that goal was initially amended to allow workers to weatherize homes if they are certified—or are on a path to certification—within 90 days from the start of a weatherization contract.

- To minimize disruptions to production schedules, some providers have considered offering alternative class schedules, including night or weekend classes, but scheduling instructors and new students outside of normal business hours has been challenging.

Weatherization agencies we visited suggested a brief apprenticeship or “trial period” to help ensure that a prospective worker is interested in weatherization work before the state invests in training.

It is unclear how Pennsylvania will ensure that all new and incumbent weatherization workers are certified or on a path to certification by July 1, 2010. According to the subgrant agreement between L&I and DCED, L&I is responsible for establishing a database to document those who have completed training and obtained employment within 9 months of receiving certification. L&I and DCED officials have said that DCED monitors will review workers’ status during their annual monitoring visits; however, DCED is in the process of revising its monitoring guidelines and has not yet included tasks to review workers’ qualifications in its guidelines. Furthermore, DCED may not complete monitoring visits to all 43 weatherization agencies prior to July 1, 2010. In lieu of on-site visits, other options may be available to check compliance, such as spot-checking the list of names on certified payrolls submitted to DCED against L&I’s training and certification database or requiring weatherization agencies to periodically report on the training and certification status of their workers. Weatherization agencies are under pressure to meet their production targets, but face few consequences if they fail to use trained and certified workers. Without a method of ensuring compliance with the certification requirement, Pennsylvania’s training goals may not be achieved.

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## Pennsylvania Met the 1-Year Obligation Deadlines for Transportation Funds, but May Face Challenges in Meeting Maintenance-of-Effort Requirement

In Pennsylvania, highway funds have been obligated, and many projects—particularly for bridges and roadways—have begun. As we previously reported, FHWA apportioned \$1.026 billion in Recovery Act funds to Pennsylvania for highway infrastructure and other eligible projects. FHWA obligated the state’s full apportionment by the deadline of March 2, 2010. Primarily due to contracts being awarded at a cost lower than the state’s estimate, from March 2 through April 26, 2010, FHWA deobligated \$7.4 million of the highway funds for Pennsylvania, which has until September 30, 2010 to have FHWA obligate these funds to other projects. According to FHWA,<sup>10</sup> as of May 3, 2010, Pennsylvania has awarded 329 contracts. Of those, 254 are under construction and 96 contracts are substantially complete, representing \$124.1 million. Specifically, PennDOT has chosen to focus much of this work on repairing structurally deficient bridges and repaving roadways. As of April 5, 2010, PennDOT had been reimbursed \$267 million (26 percent) by FHWA.

In addition to funds received directly by three urban transit agencies, Pennsylvania received an apportionment of \$39.6 million for 15 nonurban transit agencies’ projects, intercity bus, and intercity rail projects.<sup>11</sup>

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## The Recovery Act Helped Pennsylvania Accelerate Needed Transportation Projects

Pennsylvania is using Recovery Act funding for bridge and roadway projects that state officials said may not have otherwise occurred at the time and is taking steps to track this work. Pennsylvania is tracking how much square footage of structurally deficient bridge deck area has been rehabilitated, as well as the miles of roadway with a “poor” or “fair” roughness measure that have been improved. Recovery Act funding will allow Pennsylvania to repair 133 structurally deficient bridges totaling almost 760,000 square feet of deck area. While these bridges represent about 2.4 percent of the 5,600 structurally deficient bridges statewide, PennDOT officials stressed that the Recovery Act is helping Pennsylvania reduce the total number of structurally deficient bridges in the state for the first time in over a decade. Recovery Act funds will also be used to repave 872 road miles of roadway currently with a poor or fair roughness

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<sup>10</sup>Contract information is from FHWA’s Recovery Act Data System, as reported by state officials.

<sup>11</sup>We previously reported on the Southeastern Pennsylvania Transportation Authority (\$190.9 million), the Port Authority of Allegheny County (\$62.5 million), and the Lehigh and Northampton Transportation Authority (\$9.4 million.) See GAO, *Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

index, out of a current total of 15,483 miles of such roadway statewide. PennDOT officials stressed that the state would not be repairing these 872 miles now without Recovery Act funding.

Similarly, Pennsylvania is tracking outcomes of the Recovery Act—such as the number of new transit vehicles purchased—that nonurban transit systems and PennDOT will achieve with Recovery Act funds. For example, replacing old buses reduces the maintenance costs for transit agencies. In addition, if PennDOT’s maintenance costs decrease, PennDOT officials told us that they will have additional funds to support PennDOT’s capital budget. As a result, officials expect the budget will be in better financial shape in coming years. At this time, PennDOT is not tracking measures such as reduced maintenance costs. Furthermore, according to PennDOT staff, many transit projects being funded by the Recovery Act, such as the new intermodal transit facility in Butler, Pennsylvania, would not have been conducted at this time otherwise. The Port Authority of Allegheny County is using Recovery Act funds to finish a long-planned light-rail tunnel in Pittsburgh to provide transit service to parts of the city that currently do not have such service.

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### Facing Lower-Than-Expected Transportation Revenues, Pennsylvania May Face Challenges in Meeting Maintenance-of-Effort Requirement

Under the Recovery Act, a state must certify that it will maintain the level of spending for the types of transportation projects funded by the Recovery Act that it had planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state is required to identify the amount of funds the state plans to expend from state sources from February 17, 2009 through September 30, 2010.<sup>12</sup> Pennsylvania submitted its third maintenance-of-effort (MOE) certification on March 8, 2010,<sup>13</sup> and, in accordance with FHWA guidance, the certification included PennDOT’s payments to localities for highway and roadway projects. As a result, Pennsylvania’s certified amount increased from about \$2.2 billion, identified in its certification on March 17, 2009, to about \$2.9 billion.

Due to lower than expected revenues, however, Pennsylvania may not have enough revenues to support the expenditures it expected to make for

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<sup>12</sup>Recovery Act, div. A, title XII, § 1201(a).

<sup>13</sup>As we previously reported, Pennsylvania first submitted its certification on March 17, 2009, and submitted an amended certification on May 20, 2009.

highways in its MOE certification.<sup>14</sup> According to state officials, the motor license fund—derived primarily from liquid fuels taxes and motor license fees—is dedicated to transportation expenditures, and has an annual budget of about \$2.6 billion per year. This fund faces a revenue shortfall for the current and previous state fiscal years of as much as \$150 million compared with what the state projected in February 2009 when the Recovery Act was passed.

PennDOT officials said that the state might better be able to meet its MOE requirement if the state accelerates its spending. For example, a project only counts toward the MOE requirement if funds are expended by September 30, 2010, which falls at the end of Pennsylvania’s first quarter of its fiscal year. If Pennsylvania could initiate projects earlier than planned and begin expenditures for these projects before September 30, 2010, it would be able to count these expenditures toward its MOE requirement. In addition, since the spring construction season has started, PennDOT officials expect spending to ramp up over their levels during this past winter.

Currently, PennDOT cannot forecast its expenditure level for September 30, 2010, and is unsure how far that Pennsylvania may fall short of its MOE requirement. PennDOT is developing a cash flow model to better determine expenditures by providing an information link between the department’s budget, expenditures, and the state’s transportation revenues. Due to delays with the model, PennDOT officials said that they will not know where Pennsylvania stands on its MOE-required expenditures until at least June 10, 2010, leaving limited time to explore options to accelerate expenditures as needed by September 30, 2010.

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<sup>14</sup>A state that does not meet its MOE certification would be excluded from FHWA’s August 2011 redistribution of obligation authority. The authority that Pennsylvania has received in these redistributions has averaged about \$55 million a year.

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## Pennsylvania Met Recovery Act Requirements for Spending Its Clean Water and Drinking Water State Revolving Funds but May Face Challenges Monitoring Subrecipients

Pennsylvania received approximately \$156.8 million for its Recovery Act Clean Water State Revolving Fund (SRF) and almost \$65.7 million for its Recovery Act Drinking Water SRF.<sup>15</sup> The Pennsylvania Infrastructure Investment Authority (PENNVEST) is the financing agency responsible for administering both SRFs. The Pennsylvania Department of Environmental Protection (DEP) develops the state's intended use plans for the SRFs, provides technical assistance to municipalities applying for PENNVEST funds, and performs interim and final inspections of projects funded by SRF loans.

In addition to providing increased funds, the Recovery Act included specific requirements for states beyond those that are part of base SRF program. For example, the Recovery Act required each state to prioritize funds for projects that are ready to proceed to construction within 12 months of its enactment (by February 17, 2010) and directed EPA to reallocate any funds that were not under contract by this date. The Recovery Act also required each state to use at least 50 percent of its Recovery Act allocation to provide additional subsidization to eligible recipients in the form of principal forgiveness, negative interest loans, or grants. Furthermore, states were required to reserve at least 20 percent of their Recovery Act allocations to fund "green" projects—green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities—to the extent there were sufficient and eligible project applications of this type.

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<sup>15</sup>The Clean Water SRF program funds wastewater treatment, watershed management, and nonpoint source pollution control projects, and the Drinking Water SRF program funds improvements to drinking water systems.

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**PENNVEST Met the Contracting Deadline and Exceeded the Green Reserve and Additional Subsidization Requirements of the Recovery Act**

Pennsylvania successfully awarded its Recovery Act funds to projects by the February 17, 2010, deadline.<sup>16</sup> The state used its approximately \$220.9 million in Recovery Act funds<sup>17</sup> together with about \$272.0 million in base program funds to provide assistance for 53 wastewater management projects, 34 storm water management projects, and 26 drinking water projects. PENNVEST reallocated 33 percent, or about \$21.7 million, of its Recovery Act Drinking Water SRF funds to its Recovery Act Clean Water SRF funds. PENNVEST officials told us that shifting funds to the Clean Water SRF made it easier for PENNVEST to provide additional subsidization for a larger number of disadvantaged communities<sup>18</sup> because Clean Water projects are generally less affordable to communities than Drinking Water projects, therefore they more frequently exceed the affordability limit PENNVEST uses to determine whether communities qualify for principal forgiveness loans. Officials also told us that combining base program funds with Recovery Act funds allowed PENNVEST to fund a larger number of projects and to use freed up Recovery Act funds, if eligible applicants declined funding offers, for other projects in lieu of base funds.

Pennsylvania also exceeded the Recovery Act's green reserve and additional subsidization requirements, using 87 percent of Recovery Act funds for additional subsidization and 26 percent of Recovery Act funds for green projects (see table 5).

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<sup>16</sup>The Recovery Act requires that all SRF funds appropriated under the Recovery Act be under contract or construction by February 17, 2010, and directed EPA to reallocate any funds that were not under contract or construction by this date.

<sup>17</sup>The Clean Water SRF received almost \$1.6 million in funds for 604(b) Water Quality Management Planning.

<sup>18</sup>Pennsylvania identified disadvantaged communities by evaluating their financial capability to pay for water service, based on an assumption that the amount that residential customers should be able to pay for water services will range from one to two percent of the community's adjusted median household income (MHI). If the estimated used rate is higher than this amount, PENNVEST considers the water systems in the community to be "disadvantaged" and targets loan term extensions or additional subsidization in the form of principal forgiveness.

**Table 5: Clean Water and Drinking Water State Revolving Fund Projects**

Type of state revolving fund	Total number of projects and total costs	Additional subsidization amount	Green reserve amount
Clean Water State Revolving Fund	87 projects \$176,905,304	62 projects \$162,566,845 (92 percent)	43 projects \$39,795,689 (22 percent)
Drinking Water State Revolving Fund	26 projects \$44,006,270	10 projects \$30,464,781 (69 percent)	11 projects \$16,707,139 (38 percent)
<b>Total</b>	<b>113 projects</b> <b>\$220,911,574</b>	<b>72 projects</b> <b>\$193,031,626</b> <b>(87 percent)</b>	<b>54 projects</b> <b>\$56,502,828</b> <b>(26 percent)</b>

Source: GAO analysis of PENNVEST data.

We visited two Clean Water projects and one Drinking Water project (see table 6). These projects were selected to include a green project, a disadvantaged community, and a new subrecipient.

**Table 6: Water Projects Visited**

Clean Water SRF	Drinking Water SRF
The Mount Carmel Municipal Authority received a \$13.6 million principal forgiveness loan to construct a new wastewater treatment plant to handle peak flows and comply with the Chesapeake Bay limitations for nitrogen and phosphorus. In the absence of Recovery Act funds, the project would not have had sufficient funding because user rates would have been insufficient to cover the costs of the infrastructure upgrade.	The Chesapeake Bay Foundation (CBF) received a \$14.2 million principal forgiveness loan to reduce nutrient pollution and excess agricultural sediment in streams by integrating forested stream buffers with other agricultural best management practices. About \$4.4 million of these funds will go towards green infrastructure. CBF would not have been able to fund this project without Recovery Act funds because there is no user rate or revenue stream for this type of project.
	Hazleton City Authority Water Department received two principal forgiveness loans totaling about \$14.7 million to upgrade its drinking water storage and delivery services through better leak detection, replacement of water mains, increases in storage and other upgrades. About \$6.7 million, or 45 percent, of these funds will go toward green infrastructure. The loans funded by the Recovery Act allowed Hazleton to accelerate replacing 8,000 feet of aging water mains without raising user rates.

Source: GAO analysis based on information from local water projects and PENNVEST.

**PENNVEST Is Responsible for Monitoring a Large Number of Subrecipients**

Although spreading Recovery Act funding across a larger set of projects helped PENNVEST exceed the additional subsidization and green reserve spending requirements while meeting the contracting deadline, PENNVEST will be required to monitor a greater number of subrecipients for compliance with Recovery Act requirements. These requirements include quarterly recipient reporting, compliance with Buy American provisions, and maintaining wage rates and weekly payroll administration

compliant with the Davis-Bacon requirements. PENNVEST monitors subrecipient compliance and reporting through its online funds disbursement process. To receive monthly disbursements, the subrecipients must certify that the engineers, project supervisors, and contractors who work on project sites comply with requirements of the funding agreement. According to PENNVEST, 14 eligible subrecipients declined funding, in part, because they thought the requirements under the Recovery Act would be too burdensome given the relatively low amounts of the Recovery Act funds offered.<sup>19</sup>

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## Pennsylvania Awarded the Majority of Its Tax Credit Assistance Program and Section 1602 Tax Credit Exchange Program Funds

Recovery Act established two funding programs that provide capital investments in low-income housing projects: (1) the Tax Credit Assistance Program (TCAP) administered by the U.S. Department of Housing and Urban Development (HUD) and (2) the Section 1602 Tax Credit Exchange Program (Section 1602 Program) administered by the U.S. Department of the Treasury (Treasury).<sup>20</sup> TCAP and the Section 1602 Program were designed to fill financing gaps in planned tax credit projects and jump-start stalled projects. According to Pennsylvania officials, such funding was needed because of a decline in pricing and a lack of investors in the tax credit market. Officials reported that the average price investors paid per dollar of tax credit declined from \$0.85 in 2007, to \$0.79 in 2008, and to \$0.68 in 2009. Officials said that approximately 40 low-income housing projects were stalled because of decreased equity investment and lack of investor interest in rural areas.

Pennsylvania received about \$95.1 million in TCAP funds and \$229.9 million in Section 1602 Program funds. As of April 27, 2010, the Pennsylvania Housing Finance Agency (PHFA)—which administers the low-income housing tax credit program—had awarded \$81 million in TCAP funds (about 85 percent) and \$209.8 million in Section 1602 Program funds (about 91 percent) for 52 projects containing about 2,800 units (including 2,740 tax credit units).<sup>21</sup> As of May 5, 2010, Pennsylvania had

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<sup>19</sup>The range of loans offered the 14 eligible subrecipients was between \$5,945 and \$721,868.

<sup>20</sup>State housing finance agencies allocate low-income housing tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low-income tenants. Once awarded tax credits, owners attempt to sell them to investors to obtain funding for their projects. Investors can then claim tax credits for 10 years if the property continues to comply with program requirements.

<sup>21</sup>Because tax credit projects have multiple sources of financing, they sometimes include market rate units as well as tax credit units.

spent about \$19.7 million (20.7 percent) in TCAP funds and \$77.3 million (33.6 percent) in Section 1602 Program funds. PHFA officials expect to finish awarding TCAP and Section 1602 Program funds by mid-July 2010.

In selecting TCAP projects, PHFA officials prioritized projects that were “shovel ready” and had obtained building permits. PHFA also considered, among other things, the level of funding from other sources. In choosing Section 1602 Program projects, PHFA focused on funding projects that had received 2007 and 2008 tax credits but did not have adequate financing to continue.

We visited two TCAP projects that received their awards by December 31, 2009 (see table 7). According to PHFA officials, Recovery Act funds helped both projects move forward, and construction is under way. The developer for Hopewell Courtyard is converting an old factory and adding two buildings to create new housing for people aged 55 and older (see fig. 1). Greystone Apartments is undergoing renovations to modernize kitchens and bathrooms as well as to improve safety and energy efficiency of the late 1800s-era buildings (see fig. 1).

**Table 7: Selected TCAP Projects in Pennsylvania**

Project	TCAP award	Percentage of total project cost	Type of construction	Type of housing	Type of location	Number of tax credit units	Total number of units
Hopewell Courtyard, Stewartstown <sup>a</sup>	\$5,594,162	34	New construction	Elderly	Rural	96	96
Greystone Apartments, City of Allentown	\$1,332,138	23	Rehabilitation	Family, disabled	Urban	24	24

Source: PHFA.

<sup>a</sup>We used the original project name shown on PHFA documentation; the project is now known as Westminster Place at Stewartstown.

**Figure 1: Greystone Apartments in Allentown, Pennsylvania, to Be Renovated and Factory Conversion with Two New Buildings at Hopewell Courtyard in Stewartstown, Pennsylvania**



Side view of Greystone Apartments exterior.



A fire escape at Greystone Apartments that the project will replace as part of safety improvements.



Hopewell Courtyard (renamed Westminster Place at Stewartstown) factory building being converted to living space.



The concrete slab for two new buildings at Hopewell Courtyard.

Source: GAO.

PHFA officials reported some delays and challenges in implementing the Recovery Act TCAP program. For example, TCAP required PHFA to comply with HUD's environmental review process for certain projects that

had previously completed reviews as a requirement for other HUD funding.<sup>22</sup> PHFA officials said about 10 projects that were otherwise ready to close on their awards were delayed up to 60 days while PHFA had to redo environmental reviews. Also, the Recovery Act required compliance with Davis-Bacon prevailing wages for every TCAP project whereas other HUD programs have a threshold exempting projects under a defined number of units. PHFA officials said Davis Bacon prevailing wages can drive up project costs by up to 10 percent.

Although TCAP and the Section 1602 Program helped provide gap financing for low-income housing projects, PHFA officials raised concerns about PHFA's liability under both TCAP and Section 1602 Program recapture provisions. Housing finance agencies are responsible for returning funds to HUD and Treasury if a project is not placed in service or fails to comply with low-income housing tax credit requirements. To help mitigate risks, PHFA decided to require developers to provide financial guarantees to PHFA that can be called on in the event PHFA needs to recapture funds from the developer. PHFA officials also expressed concern that Treasury's requirement that Section 1602 Program funds be awarded as a grant or nonrepayable loan left them with little leverage to enforce low-income housing tax credit requirements over the life of a project.

Officials also said that the Recovery Act workload has increased their workload and reporting requirements, but PHFA must bear the administrative costs associated with TCAP and Section 1602 Fund. They suggested allowing an administrative cost portion similar to the 10 percent allocation allowed for HUD's HOME Investment program. PHFA officials stated concerns with reporting jobs on the quarterly recipient reports for TCAP projects. They said that prorating job measures based on the percentage of Recovery Act funding, as required by the federal Office of Management and Budget, understated job creation in part because the projects would not be under way without the gap financing.

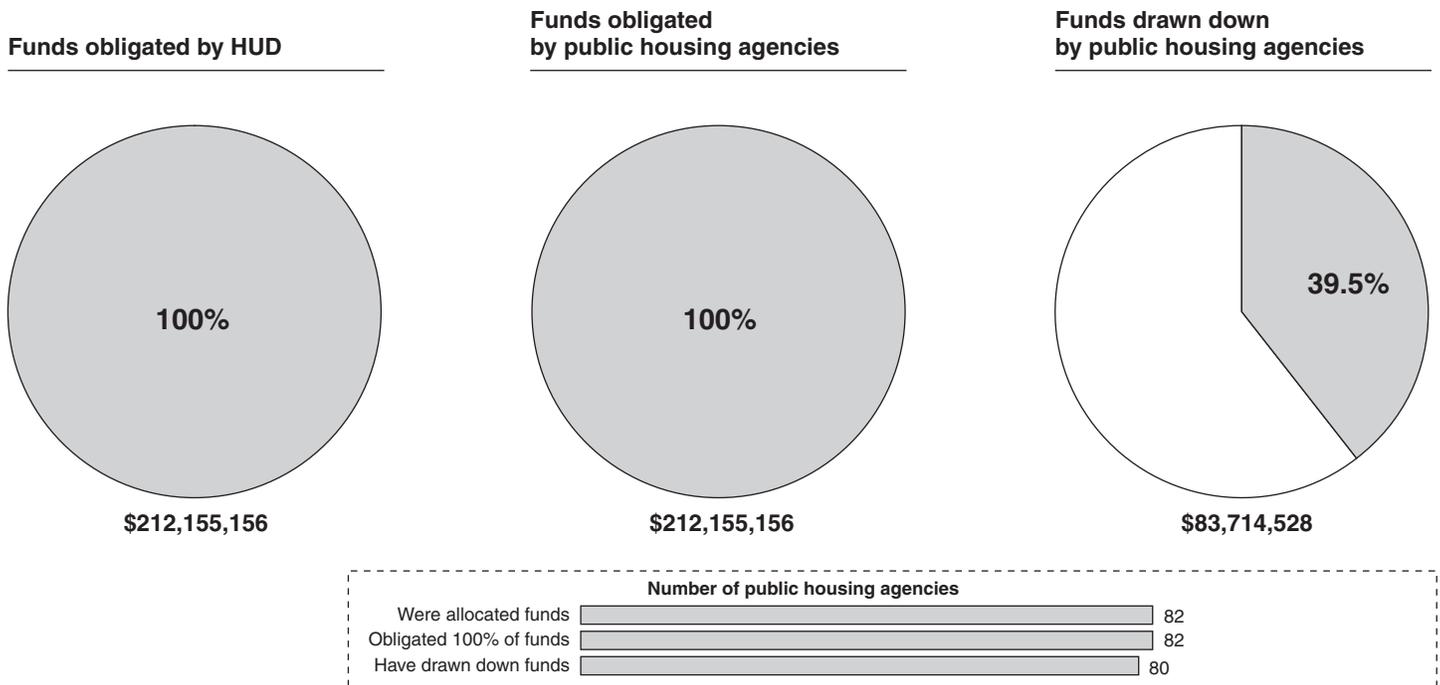
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<sup>22</sup>If the entity responsible for the previously completed environmental assessment had not changed and neither the project nor the environmental conditions had changed since the completion of the previous environmental review, then no new environmental review was required. However, if the entity responsible for the previous environmental assessment had changed, then a new environmental review was required.

## Local Housing Authorities Met the 1-Year Obligation Deadline for Public Housing Capital Funds

Pennsylvania has 82 public housing agencies that have received a total of \$212.2 million in Recovery Act Public Housing Capital Fund formula grants (see fig. 2). The Recovery Act requires public housing agencies to obligate their funds within 1 year of the date they were made available, or by March 17, 2010. In Pennsylvania, all public housing agencies obligated their funds by that date. As of May 1, 2010, 80 public agencies had drawn down \$83.7 million (39 percent), and 11 of those agencies had drawn down their full award.<sup>23</sup>

**Figure 2: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Had Been Obligated and Drawn Down in Pennsylvania, as of May 1, 2010**



Source: GAO analysis of data from HUD's Electronic Line of Credit Control System.

<sup>23</sup>We previously visited two public housing agencies in Pennsylvania: the Philadelphia Housing Authority and the Harrisburg Housing Authority. We will provide updated information on these housing agencies in a future report.

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## Pennsylvania Has Begun Disbursing Recovery Act State Fiscal Stabilization Fund Monies to Subrecipients

As we previously reported, Pennsylvania was approved by the U.S. Department of Education (Education) to receive the initial \$1.4 billion of its total \$1.9 billion SFSF allocation.<sup>24</sup> In line with a Recovery Act requirement, of the total \$1.9 billion, approximately \$1.6 billion (81.8 percent) are education stabilization funds, and approximately \$347 million (18.2 percent) are government services funds. SFSF government services funds, which do not need to be used for education purposes, are largely being used to support corrections officers. Education stabilization funds are being used to restore and provide funding to local education agencies (LEA) and institutions of higher education (IHE). Pennsylvania's use of SFSF funds in state fiscal years 2008-09, 2009-10, and 2010-11 is shown in table 8. As of March 31, 2010, the School District of the City of York had used \$2.7 million out of a total \$5.4 million awarded in Recovery Act SFSF funds to cover a budget shortfall and fund about 102 full-time equivalent positions. The Reading school district has used \$5.7 million of its total \$13.7 million in Recovery Act SFSF funds awarded to make debt payments.<sup>25</sup> Kutztown University of Pennsylvania used all of its \$5.7 million of Recovery Act SFSF funds awarded to cover a budget shortfall and fund about 58 full-time equivalent positions.<sup>26</sup>

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<sup>24</sup>As we previously reported, Pennsylvania submitted its first SFSF application in April 2009 and resubmitted its application on June 26, 2009, to remove four institutions of higher education (IHE) from receiving SFSF money. Education directed the state to resubmit its application again to include these IHEs as recipients of SFSF money. The final application was submitted on October 20, 2009, after the state passed its budget for fiscal year 2009 and included these four IHEs and was approved November 2, 2009.

<sup>25</sup>We selected the Reading School District because it was the third largest LEA SFSF subrecipient in Pennsylvania. We also visited the City of York School District because it used both SFSF and Title I funds to support salaries and benefits.

<sup>26</sup>Kutztown University was the third largest subrecipient of SFSF funds among Pennsylvania's state-owned universities.

**Table 8: Use of SFSF Funds in Pennsylvania**

SFSF type	Fiscal year 2008-09	Fiscal year 2009-10	Fiscal year 2010-11 <sup>a</sup>
SFSF education stabilization funds	\$63 million to restore funding to 14 IHEs in the Pennsylvania State System of Higher Education (PASSHE)	<ul style="list-style-type: none"> <li>• \$355 million to restore basic education funding to fiscal 2008-09 level</li> <li>• \$300 million additional basic education funding over fiscal 2008-09 level</li> <li>• \$93 million to 14 PASSHE IHEs, community colleges, a technology college, and four state-related IHEs<sup>b</sup> to restore IHE funding to the fiscal year 2007-08 level of \$1.4 billion</li> </ul>	\$748 million
SFSF government services funds		\$173 million for corrections and support to help cover oversight and reporting costs of Pennsylvania's Accountability Office	\$173 million for corrections and Pennsylvania's Accountability Office

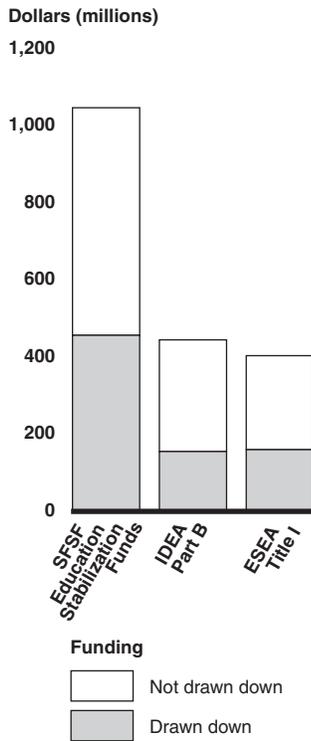
Source: Pennsylvania.

<sup>a</sup>Governor's proposed fiscal year 2010-11 budget.

<sup>b</sup>The state-related IHEs are Pennsylvania State University, University of Pittsburgh, Temple University, and Lincoln University.

As we previously reported, the state budget process slowed the release of funds and the ability of PDE and the LEAs to finalize their plans for using Recovery Act education funds. PDE officials said by March 31, 2010 that 499 out of 500 LEAs submitted the required rider stating they will comply with Recovery Act terms and received an SFSF disbursement. Although PDE typically disburses funds in monthly allotments over the award period, PDE disbursed initial payments to LEAs equal to a 3-to-4 month allotment. According to the U.S. Department of Education, as of April 16, 2010, Pennsylvania has drawn down \$156.5 million of \$400.6 million awarded for Elementary and Secondary Education Act of 1965 Title I, Part A, \$151.8 million of \$441.7 million awarded for Individuals with Disabilities Education Act, Part B, and \$453.6 million of \$1.0 billion awarded of SFSF funds. As of April 16, 2010, Pennsylvania had drawn down 39.1 percent of funds awarded for ESEA Title I Part A, 34.4 percent of funds awarded for IDEA Part B as amended, and 43.4 percent of SFSF funds (see fig. 3).

**Figure 3: Pennsylvania Education Funds Drawn Down as of April 16, 2010**



Source: U.S. Department of Education.

In March 2010, the U.S. Department of Education Office of the Inspector General (OIG) recommended that PDE strengthen its ESEA Title I and IDEA monitoring of LEAs' fiscal controls and use of funds and develop a monitoring plan for SFSF funds.<sup>27</sup> On March 12, 2010, PDE submitted its draft monitoring plan for SFSF funds and is waiting for comments from Education. In April 2010, the OIG recommended that the Philadelphia School District be named a high-risk grantee of the Department of Education due to internal control and oversight problems identified in the OIG's 2010 audit.

<sup>27</sup>U.S. Department of Education Office of Inspector General, *American Recovery and Reinvestment Act of 2009: Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds*, Control Number ED-OIG/A03J0010, March 15, 2010.

## Recovery Act JAG Funds Ensure Continuity of Criminal Justice Programs

The total Recovery Act JAG allocation for Pennsylvania and its local governments is about \$72 million. The Pennsylvania Commission on Crime and Delinquency (PCCD)—the state administering agency for JAG—was awarded \$45 million in JAG funds.<sup>28</sup> In addition, localities received about \$27 million in JAG awards directly from DOJ, including grant funds passed through to localities in the same county.

## Although the State Budget Impasse Initially Slowed Awards, Pennsylvania Has Awarded More Than Half of JAG Funds

PCCD plans to distribute 25 percent of JAG funds to state agencies and 75 percent to localities throughout the state.<sup>29</sup> PCCD developed its initial state and local spending plans in June 2009, but in October 2009 after the state budget was enacted, PCCD amended the plan to better target Recovery Act funding to areas affected by budget cuts. In response to a \$6 million cut from juvenile services programs, PCCD amended its Recovery Act spending plan to add more resources for juvenile services. As of March 31, 2010, PCCD has awarded over \$25 million (56 percent) of its award to state agencies and localities (see table 9).

**Table 9: PCCD JAG Awards and Planned Allocations to State Agencies and Localities as of March 31, 2010**

Area of focus	Awards as of March 31, 2010	Planned or pending	Total
Technology initiatives	\$2,000,000	\$2,050,000	<b>\$4,050,000</b>
Violence prevention	3,499,004	-	<b>\$3,499,004</b>
Victims of juvenile offenders	3,260,000	-	<b>\$3,260,000</b>
Law enforcement	1,000,000	500,000	<b>\$1,500,000</b>
Justice job creation and retention	5,993,529	-	<b>\$5,993,529</b>
Criminal justice and victim services	5,826,981	800,000	<b>\$6,626,981</b>
Pennsylvania Weed and Seed program	1,723,159	1,276,841	<b>\$3,000,000</b>
State agencies	1,888,496	7,451,683	<b>\$9,340,179</b>
Localities' grants under \$10,000	-	1,827,262	<b>\$1,827,262</b>
Research and evaluation	-	750,000	<b>\$750,000</b>

<sup>28</sup>PCCD is the state administering agency for JAG in Pennsylvania. The Commission consists of representatives from all aspects of criminal justice, including Pennsylvania's Attorney General, the State Police Commissioner, the Welfare Department Secretary, Department of Corrections Secretary, members of the General Assembly, the Governor's Victim Advocate, law enforcement representatives, victims' services practitioners, a judge, a prosecutor, a prison warden, a county government official, other local criminal justice policy makers and knowledgeable private citizens.

<sup>29</sup>Up to 10 percent of a formula grant award to a state may be used by the state to pay for costs incurred in administering the formula grant program.

Area of focus	Awards as of March 31, 2010	Planned or pending	Total
Training	-	250,000	\$250,000
Unawarded and unallocated balance	-	811,643	\$811,643
Administrative fees	-	-	\$4,545,399
<b>Total</b>	<b>\$25,191,169</b>	<b>\$15,717,429</b>	<b>\$45,453,997</b>

Source: PCCD.

State agencies have received nearly \$2 million largely for technology enhancements, such as buying 372 laptop computers for field parole agents. Local awards include nearly \$6 million for justice related jobs, such as juvenile court and parole positions. PCCD also awarded \$1.7 million for the state’s Weed and Seed program, which supports community collaborations to (1) “weed” neighborhoods of drugs, guns, problematic bars and violent offenders and (2) “seed” communities with economic and social programs, such as literacy and job training activities. As of March 31, 2010, PCCD has expended about \$2.9 million in Recovery Act JAG funds. According to PCCD officials, PCCD plans to award most of the remaining \$15.7 million by September 2010.

**Localities Use Recovery Act JAG Funds for Onetime Projects and Equipment, and Some Programs May Face Challenges Once the Recovery Act Funds End**

We visited seven localities in Pennsylvania that, in total, were awarded about \$16.6 million in Recovery Act JAG grants by DOJ and \$4.6 million from PCCD (see table 10). Allentown, Bethlehem, Dauphin County, and York County received grants from DOJ which they passed on to designated localities. Harrisburg and York City were subrecipients of these pass through grants.<sup>30</sup>

<sup>30</sup>We selected locations to review localities that received both direct DOJ and PCCD pass through grants, as well as subrecipients of direct DOJ grants.

Table 10: Selected Recipients and Subrecipients of Recovery Act JAG Funding as of March 31, 2010

Locality	Grant source	Planned use of Recovery Act JAG funds	Award
Allentown	DOJ	Supported new police substation and purchased six new police vehicles to replace high mileage vehicles, computers, and police equipment, including security cameras.	\$580,171
		Passing subgrants on to four localities.	\$91,986
	PCCD	Funded Pennsylvania Weed & Seed Program coordinator positions.	\$80,000
Bethlehem	DOJ	Purchased computers and records management system; purchased two horses and the necessary equipment, as well as training for the horses and officers to establish a mounted patrol unit.	\$172,216
		Passing subgrants on to six localities.	\$182,322
Dauphin	DOJ	Passing subgrants on to nine localities.	\$745,169
	PCCD	Funded district attorney and public defender positions, the Victim Witness Assistance Program, and the Prison Reentry Program.	\$749,468
Harrisburg	Dauphin County pass through	Purchased computers, scanners, and electronic evidence storage to replace costly storage of more than 5 million paper records.	\$483,441
	PCCD	Funded Pennsylvania Weed and Seed initiative program coordinator and community police liaison positions.	\$150,000
Philadelphia	DOJ	Purchased tasers and batons, funded training courses and the Real Time Crime Center to improve incident response. Funded mural restoration work for at risk youths and reentry programs for ex offenders in the areas of, cleaning and sealing of vacant properties, and training and certification for "green jobs" such as weatherization and pest control services. Funded 52 municipal court positions.	\$13,544,604
	PCCD	Developed a database to track performance measures, funded victims' services, job retention in courts, and parole officers for adults and juveniles.	\$2,957,166
York County	DOJ	Supplemented salaries of officers to expand the Nuisance Abatement program.	\$54,862
		Passing subgrants on to 12 localities.	\$524,690
	PCCD	Funded adult probation officers, a drug/alcohol case manager, and victim services programs.	\$574,657
York City	York County pass through	Purchased three police vehicles and equipment, including tasers, radios, and computers.	\$273,276
	PCCD	Funded Pennsylvania Weed and Seed program.	\$80,000

Source: GAO analysis of data from PCCD, cities of Allentown, Bethlehem, Harrisburg, Philadelphia, and York and Counties of Dauphin and York.

In some cases, localities are using JAG funds for programs and may face challenges in sustaining funding once the Recovery Act support ends. For example, some localities, such as Allentown, Harrisburg, and York City, are using Recovery Act JAG funds for their ongoing Pennsylvania Weed and Seed programs. Philadelphia used JAG funds to avoid disbanding the city community court, and the court may again face possible elimination once the Recovery Act funding ends unless the City reinstates funding in its fiscal year 2012 budget. Bethlehem used \$45,000 in JAG funds to

purchase two horses and related equipment, supplies, and training services to fund a Mounted Patrol Unit, and police officials said that they are soliciting private donations to help cover the estimated \$10,000 in annual operating costs.

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### Monitoring and Oversight of Recovery Act JAG Funds

PCCD plans to monitor Recovery Act grant subrecipients through report reviews, telephone interviews, and on-site visits. PCCD grants managers contact recipients within the first three months after awarding the grant to review reporting requirements, project status, and any areas of concern. In late March 2010, PCCD grants managers completed their first two subrecipient visits to review timesheets and verify equipment purchases, among other tasks. In the event of any noncompliance, PCCD plans to withhold reimbursement until requirements are met. To help with monitoring and oversight, PCCD plans to hire two temporary staff using Recovery Act funds. Local recipients of direct JAG grants we visited said they generally focus on activities such as compiling applications, submitting invoices for reimbursement, submitting quarterly recipient reports, and providing assistance to subrecipients. Two of the four recipients of direct DOJ grants said they did not plan any additional monitoring and oversight of the subrecipients. Philadelphia plans to monitor its mural arts and green jobs training programs. York County plans to monitor subrecipient inventory systems and use of equipment.

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### Philadelphia and Harrisburg Used CHRP Funds to Hire New Police Officers

Nineteen localities in Pennsylvania received CHRP grants totaling about \$20.2 million to hire or retain police officers. Philadelphia received \$10.9 million to hire 50 officers—an increase of 0.7 percent of 6,672 sworn officers currently, and Harrisburg received \$1.7 million to hire 8 officers—4.79 percent of 167 sworn officers currently. In addition, \$7.6 million was provided to 17 other localities to hire 35 officers. In Philadelphia, the officers will be responsible for responding to service calls and preventing crime in designated community policing areas. In Harrisburg, the officers will be assigned to high-crime areas. Philadelphia officials said that they expect the department’s general operating fund will be able to meet the CHRP grant’s fourth year retention requirement. Harrisburg officials acknowledged that financial difficulties may affect the city’s ability to fund

the positions in the fourth year as the city may need to leave vacant officer positions unfilled to cover salaries for the CHRP positions.<sup>31</sup>

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## Pennsylvania Fiscal Challenges Continue

For fiscal year 2009-10, Pennsylvania is using \$921 million in SFSF funds (discussed above) as well as state funds freed up as a result of the almost \$1.78 billion in increased Federal Medical Assistance Percentage (FMAP) funds to help stabilize the \$27.8 billion state general fund budget.<sup>32</sup> The state also drew \$755 million from and exhausted its Rainy Day Fund in this fiscal year. Despite using these funds, as of December 2009, Pennsylvania had laid off 721 state employees during the fiscal year. Pennsylvania's general fund revenues for fiscal year 2009-10 remain lower than expected; as of May 1, 2010, its revenues have been about \$1.1 billion, or 4.6 percent, below expected.

The Governor's proposed fiscal year 2010-11 general fund budget is \$29 billion, including about \$2.8 billion in Recovery Act funds—\$921 million in SFSF funds and \$1.835 billion in funds freed up by the increased FMAP.<sup>33</sup> General fund revenue estimates are 2.8 percent lower in fiscal year 2010-11 than for fiscal year 2009-10. Furthermore, the 2010-11 budget included an estimated \$472 million in Interstate 80 tolling revenue for the state's motor license fund, but Pennsylvania's application to implement tolling on Interstate 80 was rejected by the U.S. Department of Transportation on April 6, 2010. The Governor convened a special session of the General Assembly to explore other means to raise revenues for transportation funding.

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<sup>31</sup>Harrisburg is facing debt service payments due this year on debt guaranteed for the city's incinerator plant.

<sup>32</sup>The use of Recovery Act funds must comply with specific program requirements but also, in some cases, enables states to free up state funds to address their projected budget shortfalls. The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. However, the receipt of this increased FMAP may reduce the funds that a state would otherwise have to use for its Medicaid programs. As we previously reported, Pennsylvania plans to use the funds made available as a result of the increased FMAP to cover the state's increased Medicaid caseload, ensure that prompt payment requirements are met, maintain current populations and benefits, and help stabilize the state budget.

<sup>33</sup>Pennsylvania's estimate of the funds freed up by an increased FMAP includes \$850 million based on the assumption that pending federal legislation will be enacted to extend the increased FMAP by two quarters through June 30, 2011.

According to the latest state budget, Recovery Act funds helped Pennsylvania mitigate the need for drastic service cuts or broad-based taxes to balance the budget in fiscal year 2010-11. However, Pennsylvania faces the end of Recovery Act funds in fiscal year 2011-12 and a sharp increase in pension costs beginning in fiscal year 2012-13.<sup>34</sup> To help minimize the effect of the drop off in Recovery Act funds, Pennsylvania required state agencies to use limited-term positions when hiring using Recovery Act funds.<sup>35</sup> To address future budget deficits, the Governor has proposed creating a stimulus transition reserve fund to help the next administration and legislature deal with fiscal challenges that remain as the economy recovers. The new fund would be financed through a package of tax measures with revenues, reserved for use after June 30, 2011.<sup>36</sup>

As we previously reported, Pennsylvania enacted its fiscal year 2009-10 budget on October 9, 2009, 100 days after the fiscal year began, and this budget impasse delayed the release of some Recovery Act funds, including the SFSF disbursements discussed above. Under Pennsylvania law, federal funds generally are appropriated by the General Assembly.<sup>37</sup> Various state agencies could not move forward with Recovery Act contracts and subgrant agreements until after October 9, 2010. Continued use of Recovery Act funds in fiscal year 2010-11 will hinge on Pennsylvania enacting its fiscal year 2010-11 state budget.

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## Local Governments Are Using Recovery Act Funds for Onetime Expenses as Well as to Fund Ongoing Programs

To learn more about the effect of Recovery Act funds on local governments, we visited the cities of Allentown and Philadelphia as well as the counties of York and Dauphin. Figure 4 provides recent

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<sup>34</sup>Under current law and using the state pension systems' annual earnings assumptions, Pennsylvania projects its employer contributions will increase from \$1.3 billion in fiscal year 2011-12 to \$3.7 billion in 2013-14. For fiscal year 2009-10, Pennsylvania's contribution is \$561 million.

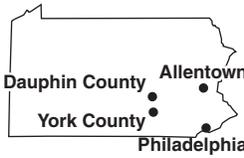
<sup>35</sup>As of May 11, 2010, Pennsylvania had filled 349 positions specifically for Recovery Act programs, including 207 staff for food stamp eligibility and processing and 120 for workforce investment and unemployment compensation. Another 36 positions are approved.

<sup>36</sup>Measures include lowering the state sales tax from 6 percent to 4 percent and eliminating 74 exemptions, enacting a natural gas extraction tax, as well as other revenue raisers.

<sup>37</sup>72 Pa. Cons. Stat. § 4615.

demographic information for these localities.<sup>38</sup> Dauphin County is located in a medium-sized urban area encompassing the state capitol with a county unemployment rate below the state’s average of 9.0 percent. York County has an unemployment rate above the state average. Philadelphia is the largest city in Pennsylvania, and Allentown is located in the third largest urban area in Pennsylvania; both have unemployment rates higher than the state’s average. The four local governments we visited generally plan to use the Recovery Act funds for a variety of projects and service expansions that would otherwise have remained unfunded.

**Figure 4: Demographics for Four Local Governments Visited in Pennsylvania**

	Philadelphia	Allentown	York County	Dauphin County
 Estimated population (2008) <sup>a</sup> :	1,447,395	107,250	428,937	258,934
Unemployment rate (March 2010):	11.3%	13.2%	9.6%	8.7%
2010 General Fund Budget:	\$3.97 billion	\$81.2 million	\$164.7 million	\$199.0 million
Locality type:	City	City	County	County

Source: GAO analysis of U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics (LAUS) data, cities of Allentown and Philadelphia and counties of Dauphin and York.

Notes: City population data are from the latest available estimate, July 1, 2008. County population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

**City of Allentown.** Allentown officials said that the city has received about \$3.7 million in Recovery Act funds. To help prevent homelessness, Allentown is working with surrounding counties of Lehigh and Northampton and the city of Bethlehem to provide rent and utility assistance to low-income families to prevent homelessness. According to city officials, the local nonprofit service providers are concerned about Recovery Act administrative and reporting requirements and have faced difficulties in paying for assistance services before seeking reimbursement under the grant. City officials said they have completed the environmental reviews needed to start construction on the Community Development Block Grant projects, and plan to issue the request for proposals in spring

<sup>38</sup>Our examination of Recovery Act funds included only funds that have or will be received by the specific entities we visited. In the four areas we visited, local school districts, transit agencies, and public housing authorities also have or will be receiving Recovery Act funds.

of 2010. Allentown officials said that Recovery Act funds will allow the city to provide services or enhancements that would not have been available otherwise and that these services will likely be scaled back or discontinued when the Recovery Act funding ends. The city's controller conducts audits of expenditures in Allentown.

**Dauphin County.** Dauphin County officials said that the county expects to receive about \$7.5 million in Recovery Act funds. Dauphin County will use Recovery Act funds to provide additional services, such as weatherizing homes and preventing homelessness. Dauphin County has also used Recovery Act funds to fund onetime projects, such as water line replacement and repaving. Dauphin County has also applied for but not yet received a \$5 million Energy Efficiency and Conservation Block Grant. In December 2009, we reported that Dauphin County officials said that Recovery Act funding would have minimal effect on future budgets. However, Dauphin County is a co-guarantor of \$140 million in debt for an incinerator owned by the Harrisburg Authority.<sup>39</sup> If Dauphin County is held responsible for the debt, officials said that the budgetary effect in 2011 would be significant, and existing programs, including those funded by the Recovery Act would be reduced or eliminated. The county Controller's Office conducts financial audits, including the county's Single Audit report which it lists on the office's Web site.

**County of York.** County of York officials said that the county has received about \$11.4 million in Recovery Act funds. Officials said that a significant portion of the county's revenue comes from real estate property taxes, which have not grown during the housing market downturn. Officials said the county took steps to avoid further raising property taxes in the 2010 budget, including implementing a workforce reduction of 59 positions. York County will use Recovery Act funds to provide additional services to county residents, such as weatherization and housing assistance. York County officials said that the Homelessness Prevention and Rapid Rehousing funds are helping keep families together in their homes, which is important because most county shelters serve mostly single men. York County is also using Recovery Act funds for onetime

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<sup>39</sup>The Harrisburg Authority, a municipal authority, owns and manages the incinerator. When the authority issued debt in 2003, the debt was guaranteed by the City of Harrisburg, with Dauphin County acting as a secondary guarantor. The authority is facing default on its debt and, according to County officials, the county will be required to make a \$35 million debt service payment in December 2010 if the authority and the City of Harrisburg are unable to make the payment.

projects, such as improvements for county streetscapes to comply with the Americans with Disabilities Act of 1990, and improvements in energy efficiency in county buildings. The county Controller's Office conducts financial audits and conducts monitoring and validation of county expenditures. The office issues the county's annual Single Audit review, but according to an official with the office, is not conducting any audits specifically focused on Recovery Act spending in the county.

**City of Philadelphia.** Philadelphia officials said that as of March 31, 2010, the city had been awarded about \$216 million in Recovery Act grants.<sup>40</sup> Philadelphia received about \$179.4 million in grants directly from the federal government to support anticrime programs, community development projects, energy-efficiency projects and other improvements. The city reported that it had been awarded \$36.4 million in grants passed through the state. Some of these funds were for programs that help residents at risk of becoming homeless stay in housing and resurfacing city streets. In addition to \$84.4 million in formula grants, Philadelphia was awarded \$130.2 million in competitive grants, including \$44 million for a Neighborhood Program 2 grant from HUD to help redevelop or stabilize neighborhoods affected by foreclosure or blight. Philadelphia has used Recovery Act funds not only to expand services for a limited time and fund onetime projects but also to create new programs that will end when the Recovery Act funding ends unless additional funding can be found. Philadelphia officials said that they face the pressure of developing a balanced budget, with an estimated 4 percent decline in the city's budget between 2009 and 2011.<sup>41</sup> They voiced concerns that the Recovery Act does not directly alleviate the city's fiscal pressures because Recovery Act funds are generally targeted for specific federally designated purposes. Although the Recovery Act funds provided funds for street paving in Philadelphia, the city nevertheless had to cut some city social programs. In addition, city officials said that Recovery Act funds passed through the state were delayed during Pennsylvania's 2009 budget impasse. For the Community Services Block Grant (CSBG), Philadelphia did not receive its contract from the state until January 26, 2010. As of March 2010, the city was working to award funds to service providers and spend \$8.3 million before the award period ends September 30, 2010.

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<sup>40</sup>According to city officials, an additional \$42.2 million has been announced by the federal government for Philadelphia, but the City is awaiting the formal award letters.

<sup>41</sup>As of May 7, 2010, the City Council had not passed the city's 2011 budget.

To provide transparency, and help manage the city's grant applications, awards, and federal reporting requirements, Philadelphia created a centralized Recovery Office in the fall of 2009. The Philadelphia City Council approves spending of any Recovery Act funds the city receives, and the initial approval process in late 2009 delayed the city in spending its awards. The city Inspector General and the Chief Integrity Officer set up a Recovery Act compliance and control program to focus on fraud and compliance. In addition to pre-audit reviews of Recovery Act transactions, the City Controller will conduct the city's Single Audit.<sup>42</sup> Controller Office officials said that their office not receive any additional funds for Recovery Act audits.

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## Pennsylvania's Accountability Office Has Issued Performance Measures for State Recovery Act Activities, and Some State Recovery Act Audits Are Under Way

The Pennsylvania Accountability Office, headed by the Chief Accountability Officer appointed by the Governor, is responsible for oversight and reporting on the use Recovery Act funds and ensuring compliance with federal reporting requirements. In April 2010, Pennsylvania's Accountability Office submitted to the federal government 376 recipient reports on behalf of 19 state agencies with information on 1,246 subrecipients and over 2,200 vendors and subrecipient vendors. As we previously reported, Pennsylvania's Accountability Office worked with state agencies to compile both program-specific output measures as well as longer-term outcome measures for each Recovery Act program. In February 2010, the Accountability Office issued its first annual report that provided information on Recovery Act projects and programs funded across the state and, in conjunction with Pennsylvania's quarterly Recovery Act reporting to the federal government, the office publishes a Citizens' Update report on the Recovery Act in Pennsylvania.<sup>43</sup> The office also published performance measures for many Recovery Act-funded programs.<sup>44</sup> For example, the office is planning to develop long-term measures of the pounds of nutrients and sediments in surface or ground water eliminated through wastewater projects. The office also plans to report on the numbers of new housing units and preserved low-income housing units supported by the Recovery Act as well as the longer-term percentage increase in the number of low-income housing rental units.

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<sup>42</sup>Philadelphia's 2008 Single Audit report was issued in October 2009.

<sup>43</sup>Commonwealth of Pennsylvania, *The Recovery Act in Pennsylvania: 2009 Annual Report* (Harrisburg, Pa.: Feb. 17, 2010).

<sup>44</sup>Published on the Pennsylvania's Recovery Act Web site, <http://www.recovery.pa.gov>.

Since March 2009, the Pennsylvania Stimulus Oversight Commission has held public monthly meetings to monitor Recovery Act spending in the state.<sup>45</sup> Further, the Governor's Working Group for Stimulus Accountability, a cabinet-level group, meets on a quarterly basis to help coordinate state agencies' Recovery Act activities.

As of May 2010, the Pennsylvania Bureau of Audits (BOA), an internal agency within the Office of Budget, has reevaluated its June 2009 risk assessments of more than 90 programs expected to receive Recovery Act funds to ensure adequate audit coverage of the highest risks. As of April 2010, BOA has completed one audit of Recovery Act highway and bridge projects and has about 28 more audits under way examining PennDOT compliance with Davis-Bacon, Buy American, and recipient reporting requirements of the Recovery Act. BOA completed one of these audits in January 2010 and had no adverse findings.<sup>46</sup> BOA also began its review of Pennsylvania's Recovery Act weatherization program and plans to have results by September 2010 so that DCED can implement any needed corrective action before local agencies spend the second half of their Recovery Act funds. In March 2010, BOA initiated reviews of eight Recovery Act Clean Water and Drinking Water projects. BOA also recently began a review of the State Energy Program focusing on procurement and adherence to federal requirements on expenditures and reporting as well as a review of U.S. Department of Education Elementary and Secondary Education Act of 1965 Title I funding for cyber charter schools. This will review charter school compliance with federal and state laws and regulations, including reporting requirements. BOA Recovery Act audit costs will be billed to state agencies through the statewide cost allocation plan. BOA officials said that limited staff availability affects their audit pace.

In the ongoing 2009 Single Audit, Pennsylvania's elected Auditor General is auditing Recovery Act spending as of June 30, 2009, including FMAP,

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<sup>45</sup>In addition to the Chief Accountability Officer, the commission is composed of the Governor, the Recovery Act Chief Implementation Officer, four representatives selected by Pennsylvania's congressional delegation, members of each of the four caucuses in Pennsylvania's General Assembly, and representatives from the Pennsylvania Chamber of Business and Industry, United Way of Pennsylvania, and Pennsylvania AFL-CIO.

<sup>46</sup>In addition, BOA completed an audit in March 2010 on the use of Recovery Act Workforce Investment Act of 1998 (WIA) funds by the Philadelphia Workforce Development Corporation. This audit did not contain any findings.

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extended unemployment benefits, and highway and bridge projects.<sup>47</sup> Although the deadline was March 2010, officials in the Auditor General's office said that the 2009 Single Audit report will be issued in June, as it has been in recent years.<sup>48</sup> They added that the 2009 single audit report will be late because the state budget impasse delayed the year-end closeout. Pennsylvania's Office of the Budget did not request an extension to the March deadline on behalf of Pennsylvania because officials were told that the federal government would not grant an extension. The Auditor General has one Recovery Act audit of PennDOT procurement on Recovery Act highway projects ongoing and results will be available in the spring of 2010. The Auditor General did not receive additional funding to undertake other Recovery Act audit work outside of the Single Audit work.

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## State Comments on This Summary

We provided the Governor of Pennsylvania with a draft of this appendix on May 10, 2010. The Chief Implementation Officer responded for the Governor on May 11, 2010, and agreed with the draft and provided technical comments that we incorporated where appropriate.

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## Staff Acknowledgments

In addition to the contacts named above, MaryLynn Sergent, Assistant Director; Eleanor Cambridge; John Healey; Richard Jorgenson; Richard Mayfield; James Noel; Jodi M. Prosser; Matthew Rosenberg; and Stephen Ulrich made major contributions to this report.

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<sup>47</sup>According to Pennsylvania's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2009, the Recovery Act provided \$1.2 billion of funding to Pennsylvania by June 30, 2009.

<sup>48</sup>Many nonfederal entities, particularly states, will submit their annual Single Audit reports by March 30, 2010 (for entities with fiscal year-end June 30, 2009).

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# Appendix XVII: Texas

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## Overview

The following summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> spending in Texas. The full report covering all of our work encompassing 16 states and the District of Columbia is available at [www.gao.gov/recovery](http://www.gao.gov/recovery).

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## What We Did

We reviewed the use of Recovery Act funds in Texas for weatherization, clean water and drinking water, and public housing projects. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#). For these programs, we focused on how funds were being used, how safeguards were being implemented, and how results were being assessed:

- The Weatherization Assistance Program (WAP), administered by the Texas Department of Housing and Community Affairs (TDHCA), was selected because Recovery Act funding (\$327 million) constitutes a manifold expansion of the program in Texas. Before receiving Recovery Act funding, TDHCA averaged approximately \$5 million annually in WAP funding from the U.S. Department of Energy (DOE). Among other objectives, we examined (1) how TDHCA is managing the significant increase in WAP funding, (2) the extent to which the weatherization measures being installed in homes result in energy cost savings, and (3) internal controls TDHCA has in place to ensure that Recovery Act funds are spent appropriately. At TDHCA, we reviewed WAP implementation plans and interviewed program officials. To make on-site observations, we visited weatherization projects in Houston and San Antonio, areas where significant levels of Recovery Act weatherization funding had been allocated and where varying weatherization approaches were being used.
- We selected the Clean Water State Revolving Fund (SRF) and the Drinking Water SRF programs because they are now getting underway in Texas and have not been addressed in our previous bimonthly reports. We reviewed project eligibility criteria and related documentation obtained from the Texas Water Development Board (TWDB), which administers the programs, and interviewed TWDB officials. Also, we made on-site observations and conducted interviews at a clean water project in Austin (the Hornsby Bend Biosolids Management Plant) and a drinking water project in Laredo (the

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<sup>1</sup>Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

Jefferson Water Treatment Plant). We selected Austin because according to TWDB, at an estimated cost of \$31.8 million, the project nearly meets the full 20 percent green reserve requirement for Clean Water SRF projects in Texas.<sup>2</sup> We selected Laredo because the \$48 million drinking water project is receiving the largest amount of funding of all Recovery Act SRF projects in Texas.

- The public housing program was selected because of the funding obligation deadline that was scheduled during this bimonthly reporting period. That is, by March 17, 2010, housing agencies were required to obligate 100 percent of the Capital Fund formula grants allocated under the Recovery Act. At two offices of the U.S. Department of Housing and Urban Development (HUD) in Texas—the Fort Worth Regional Office and the San Antonio Field Office—we reviewed funding obligation data and interviewed officials to discuss the types and extent of assistance and guidance that HUD provided to public housing authorities for obligating and expending Recovery Act funds. We made on-site observations regarding use of these funds by public housing agencies in four cities. Specifically, we selected a large city (El Paso) and a small city (McKinney) that had obligated (as of Jan. 30, 2010) less than 50 percent of their Capital Fund formula grants allocated under the Recovery Act; also, we selected a large city (San Antonio) and a small city (Ferris) that had obligated 50 percent or more of their funds.

Further, in Texas, we obtained state and local government perspectives on overall use and impact of Recovery Act funds. Specifically, at the state level, we obtained perspectives from the Office of the Governor, staff of the Legislative Budget Board,<sup>3</sup> and the State Comptroller's Office; and, at the local level, we contacted city management officials in Austin, Dallas, and Houston. Also, we reviewed efforts by state and local government to promote accountability for use of Recovery Act funds. We focused in

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<sup>2</sup>That is, at least 20 percent of the funds provided under the Recovery Act for both Clean Water and Drinking Water SRF projects are to be used for green infrastructure, water or energy efficiency improvements, or other environmentally innovative projects.

<sup>3</sup>According to state officials, the Legislative Budget Board is a permanent joint committee of the Texas legislature that develops budget and policy recommendations for legislative appropriations for all agencies of state government, as well as completes fiscal analyses for proposed legislation. The lieutenant governor and House speaker serve as co-chairs of the board. Other members include the chairs of the House Appropriations Committee and Senate Finance Committee. See [www.lbb.state.tx.us](http://www.lbb.state.tx.us).

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particular on efforts by the Office of the Governor, the State Auditor's Office, and city audit offices in Austin, Dallas, and Houston.<sup>4</sup>

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## What We Found

- **Weatherization Assistance Program.** For various reasons, TDHCA experienced delays in beginning work on the almost 34,000 homes projected to be weatherized using Recovery Act funds. According to Texas officials, the delay in weatherizing homes in Texas is due primarily to DOE actions, such as denying the state's request to expand the network of weatherization providers (subgrantees). In contrast, DOE contended that Texas has not undertaken sufficient actions to implement the program in spite of several meetings DOE held with Texas to accelerate the program. Regardless of the reasons, the delay in weatherizing homes has delayed realization of the potential economic benefits of the Recovery Act funds allocated to WAP and energy savings for many low-income Texans eligible for weatherization assistance. TDHCA is accelerating its progress in weatherizing homes, but several challenges remain. As of April 7, 2010—almost a year into the program—11 of the 44 subgrantees had not completed weatherizing any homes. To enhance the pace of weatherization activity, TDHCA recognizes that it will need to increase attention to weatherizing multifamily units—an approach with risks in that TDHCA and subgrantees have limited experience and training on weatherizing multifamily units. TDHCA has internal controls for WAP to help ensure that Recovery Act funds are spent according to program objectives and the state's 44 subgrantees are adequately monitored. However, several potential refinements for enhancing internal controls and monitoring have been identified in reviews conducted by TDHCA's Internal Audit Division and us.
- **Clean Water and Drinking Water.** The state of Texas received \$180.9 million in Recovery Act funding for the state's Clean Water SRF<sup>5</sup> and \$160.7 million in Recovery Act funding for the Drinking Water SRF. According to officials, TWDB established a solicitation and

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<sup>4</sup>As indicated, we contacted city management and audit officials in Austin, Dallas, and Houston to obtain local government perspectives on overall use and impact of Recovery Act funds and efforts to promote accountability for use of the funds. We selected these cities because they were awarded large amounts of Recovery Act funding and are located in different geographic areas of Texas, while collectively accounting for approximately 17 percent of the state's total population.

<sup>5</sup>Of the \$180.9 million in Recovery Act funding for the Clean Water SRF, \$179.1 million went to TWDB, and \$1.8 million went to the Texas Commission on Environmental Quality.

ranking process and met the requirement to have Recovery Act-funded SRF projects under contract by February 17, 2010. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects. TWDB officials stated that because of lower-than-expected construction bids, and lower-than-anticipated contract awards, the 46 projects include 10 more than initially anticipated—that is, 2 additional Clean Water SRF projects and 8 additional Drinking Water SRF projects. According to TWDB officials, the state encountered a challenge in awarding Recovery Act funding because the federal Environmental Protection Agency (EPA) has not established clear criteria for green reserve projects. According to EPA and TWDB, multiple oversight and monitoring efforts, both within TWDB and by EPA auditors and program staff, are underway or planned to ensure accountability for use of Recovery Act funds by subrecipients.

- **Public housing.** Of the 415 public housing agencies in Texas, 351 collectively received \$119.8 million in Public Housing Capital Fund formula grants from HUD under the Recovery Act. Collaborative efforts by HUD and the recipient agencies resulted in the obligation of all of the funds by the 1-year deadline established by the Recovery Act, or March 17, 2010. Upcoming deadlines are for expenditures—that is, the Recovery Act states that 60 percent of the Public Housing Capital Fund formula grant funds must be expended within 2 years of HUD obligating the funds to PHAs, and 100 percent of the funding must be expended within 3 years. To provide accountability for use of the funds, the HUD offices we contacted in Texas have ongoing and planned reviews to monitor whether public housing agencies are complying with Recovery Act procurement policy and related requirements and are disbursing and expending funds for approved activities.
- **Use and impact of funds.** Recovery Act funds continue to support a range of programs in Texas. As of March 28, 2010, Texas state entities had spent about \$8.3 billion of the approximately \$17.5 billion in Recovery Act funds awarded to the state, according to the State Comptroller's Office. The share of Recovery Act funds that have been spent varies among programs, depending on program-specific characteristics. Program officials also described their plans or exit strategies regarding the end of Recovery Act funding. At the local government level, city officials we contacted in Austin, Dallas, and Houston cited various positive effects that Recovery Act funds have had on their communities. However, the officials noted the amounts of Recovery Act funds awarded are relatively small compared to the

respective city's overall budget and, thus, have had limited overall budgetary impact.

- **Promoting accountability.** State entities and the local governments we reviewed in Texas are taking actions to help ensure Recovery Act funds are used appropriately. The state of Texas has used its Single Audit to provide more timely feedback, such as early written communication of internal control deficiencies on Recovery Act programs. Moreover, the Texas State Auditor and other state officials are continuing to review and monitor Recovery Act funds. The city auditors we contacted in Austin, Dallas, and Houston are also taking actions to monitor Recovery Act funding, including early identification of risks related to the Recovery Act.

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## Weatherization Activity Is Dramatically Expanding, but Program Improvements Are Possible

The Department of Energy (DOE) allocated about \$327 million to Texas for the Recovery Act Weatherization Assistance Program (WAP) to be spent over the 3-year period from April 2009 through March 2012. As of July 10, 2009, the Texas Department of Housing and Community Affairs (TDHCA), which administers WAP at the state level, had access to 50 percent of these funds, or \$163.5 million. TDHCA plans to retain about \$30 million of the total allocation to support training, technical assistance, and administrative expenses and use the remaining approximately \$297 million to weatherize about 34,000 homes of low-income Texas residents. The \$297 million is to be distributed, at the local level, by 44 subgrantees through a total of 78 contracts that cover the state's 254 counties.<sup>6</sup> The WAP has long been an active program in Texas, but Recovery Act funding constitutes a manifold expansion of the program in the state. Prior to receiving Recovery Act funding, TDHCA averaged approximately \$5 million annually in DOE WAP funding and typically completed weatherization measures on 1,740 homes a year. Our review of the WAP focused on determining the following:

- The status of the program and how TDHCA is managing the significant increase in program funding.

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<sup>6</sup>Some subgrantees entered into multiple contracts. Throughout the course of our work, TDHCA documents reported that Texas had 45 subgrantees with 79 associated contracts. As our report was being finalized, TDHCA said that one of the subgrantees (the City of McAllen) had ended its involvement with the program, reducing the number of subgrantees to 44 and the number of contracts to 78.

- The types of weatherization measures being installed in homes in Texas and the extent to which these measures result in energy cost savings.
- The internal controls TDHCA has in place to ensure that Recovery Act funds are spent in accordance with program objectives.
- The status of training additional weatherization workers to accommodate the significant increase in households anticipated to receive assistance from the Recovery Act-funded WAP.

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After a Delayed Start, TDHCA Has Made Progress in Implementing WAP but Will Need to Overcome Several Vulnerabilities to Sustain Progress

TDHCA plans to weatherize almost 34,000 homes with the significant increase in WAP funding that came with the Recovery Act. As of March 31, 2010, TDHCA reported in its latest status update to DOE that 1,834 homes had been weatherized.<sup>7</sup> DOE guidance stipulates that TDHCA cannot access the second half of its Recovery Act funding (\$163.5 million) until it demonstrates to DOE that 30 percent of the total number of homes targeted for weatherization (more than 10,170 homes) have in fact been completed. According to DOE, each state is expected to reach the 30 percent goal before September 30, 2010. Several factors—including issues associated with establishing wage rates for weatherization workers and with settling on a network of subgrantees—delayed the start up of the program in Texas.<sup>8</sup> Regardless of the causes, delayed weatherization activity delays realization of the full potential economic benefits of the Recovery Act funds allocated to WAP as well as energy savings for many low-income Texans eligible for weatherization assistance.

With respect to the issues associated with establishing wage rates, we reported in March 2010 that complying with Davis-Bacon requirements for wage-setting had caused delays in implementing the Recovery Act WAP.<sup>9</sup> Specifically, a number of states that received increased WAP funding

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<sup>7</sup>In commenting on a draft of this appendix, a senior official representing the Office of the Governor said that Texas had weatherized substantially more units in April 2010 and was continuing to make accelerated progress in May.

<sup>8</sup>Nationwide, the WAP experienced issues associated with establishing wage rates for weatherization workers. See GAO, *Recovery Act: Factors Affecting the Department of Energy's Program Implementation*, [GAO-10-497T](#) (Washington, D.C.: Mar. 4, 2010) and GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to be Fully Addressed*, [GAO-09-1016](#) (Washington, D.C.: Sept. 23, 2009).

<sup>9</sup>[GAO-10-497T](#) and [GAO-09-1016](#).

under the Recovery Act, including Texas, decided to not begin weatherizing homes until the U.S. Department of Labor determined prevailing wages for weatherization workers, as required by the Recovery Act's Davis-Bacon provision.<sup>10</sup> Texas, as well as the other states, was authorized to begin weatherizing homes in July 2009 using Recovery Act funds—so long as the state agreed to pay back wages to any weatherization workers who were paid less than the prevailing wages ultimately set by Labor. TDHCA officials explained that they and the WAP subgrantees wanted to avoid having to pay back wages and were unwilling to assume what they perceived as potentially large legal and accounting risks; so, they decided to delay weatherizing homes. After the prevailing wages were published in final form in December 2009, the subgrantees began weatherizing homes. TDHCA reported that 47 units statewide had been weatherized using Recovery Act funds by the end of December 2009.

Difficulties experienced by TDHCA in assembling a DOE-approved network of subgrantees to implement the greatly expanded level of weatherization activity also contributed to delays. To enable the dramatic expansion in weatherization activity anticipated by the Recovery Act, TDHCA identified the need to significantly expand its network of subgrantees from the 34 it was using to conduct WAP activities before the Recovery Act. TDHCA initially anticipated using 81 subgrantees to distribute WAP assistance. The 81 entities consisted of 34 existing nonprofit entities, 32 municipalities (including some with no previous WAP experience), and 15 nonprofit entities to be selected on a competitive basis. Some of the municipalities chose not to accept program funding before TDHCA submitted its draft Recovery Act WAP plan to DOE; so in April 2009, TDHCA submitted its WAP plan to DOE, requesting permission to fund 69 subgrantees.

According to TDHCA officials, DOE approved the plan in July 2009 but later directed TDHCA to revise the plan to use the existing network of nonprofit entities and a few large cities to distribute WAP assistance. According to DOE officials, the Texas WAP plan was not approved until TDHCA agreed to restructure the plan so that a larger portion of the

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<sup>10</sup>The Davis-Bacon Act requires that contractors and subcontractors pay workers the locally prevailing wages on federally funded construction projects, and it imposes several administrative requirements relating to the payment of workers on qualifying projects. Prior to the Recovery Act, Davis-Bacon requirements did not apply to DOE's WAP; therefore, Labor had to determine county-by-county prevailing wages for weatherization workers in Texas and other states.

funding was provided to the existing network of subgrantees, thereby giving these subgrantees preference, as required by WAP regulations. DOE officials also contend that they never advised TDHCA to use a few large cities as subgrantees to distribute WAP assistance; rather, DOE officials indicated that the decision was made by TDHCA. Acting on DOE's recommendation, TDHCA made several additional changes to the plan and to the number of subgrantees it planned to use to implement WAP at the local level throughout the state. In March 2010—8 months after weatherization activity was authorized to begin—TDHCA submitted its revised plan to DOE. The revised plan proposed a network of 45 subgrantees—33 existing nonprofit entities and 12 large cities. According to TDHCA officials, as of May 11, 2010, DOE had not approved the revised plan. Texas has continued to weatherize homes based on the previously approved plan.

TDHCA has taken steps that it expects will lead to an increase in the number of homes weatherized with Recovery Act funding in the coming months. In particular, TDHCA says it has now completed all negotiations with subgrantees, and the department reported that it is holding weekly meetings with all subgrantees. Thus, during our exit conference in May 2010, TDHCA officials expressed confidence that the department is on track to meet DOE's 30 percent goal by the end of August 2010, or about 1 month earlier than the expected date of September 30, 2010, that DOE set for all states. The TDHCA officials also expressed confidence that the department will successfully weatherize the 33,908 homes projected to be completed with Recovery Act funding by the end of March 2012.

Regarding the number of jobs funded with Recovery Act WAP dollars, in April 2010, TDHCA reported 297.27 full-time equivalents into [FederalReporting.gov](http://FederalReporting.gov).<sup>11</sup> According to TDHCA officials, to help ensure accuracy of job reporting by subgrantees, the agency conducted webinars, provided written guidance and job-reporting templates, established a centralized reporting Web site, and performed quality checks on submitted data.

TDHCA is accelerating the pace of weatherization activity. For example, as mentioned previously, TDHCA reported to DOE that a total of 1,834 units

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<sup>11</sup>The [FederalReporting.gov](http://FederalReporting.gov) system was created and managed by OMB and the Recovery Accountability and Transparency Board for all Recovery Act recipients to report on the nature of projects undertaken with Recovery Act funds and on job creation estimates.

had been weatherized as of March 31, 2010—a substantial increase from the 47 completed as of December 31, 2009. However, several challenges remain. Some subgrantees are continuing at a very slow pace. As of April 7, 2010—almost a year into the program—11 of the 44 subgrantees had not completed weatherization of any homes. TDHCA officials also voiced concerns about other subgrantees’ capacity to meet production goals for WAP; therefore, the officials said that TDHCA has adopted a rule allowing funds to be reallocated to successful or new subgrantees. DOE officials recently voiced concern with the progress TDHCA is making in implementing the Recovery Act-funded WAP as well. For instance, in April 2010, DOE reported that it had not been pleased with the state’s progress in implementing the Recovery Act WAP and had constant communication and several meetings with TDHCA staff in efforts to provide additional assistance and accelerate progress.

Maintaining the accelerating pace it has recently been able to achieve will require TDHCA to address several important potential vulnerabilities if the department is to avoid implementation problems down the road. In particular, given the accelerated pace of spending, TDHCA is significantly expanding the number of program officers responsible for monitoring subgrantees’ compliance with WAP requirements. In April 2010, TDHCA reported that 5 additional monitors had been hired, bringing the on-board total to 11. Further, TDHCA recognized a need to hire 8 more. An experienced program officer and a subgrantee representative with considerable weatherization experience told us, however, that it can take about a year for new staff to become fully capable of effectively monitoring all aspects of WAP. Thus, until the new program officers gain field experience, there is heightened risk that program oversight may be weakened. Inexperienced program officers may not detect mistakes made by the 44 subgrantees (many of which are new to WAP) and their contractors—all of whom are under pressure to increase production. However, in commenting on a draft of this appendix, Texas officials said they believe a full year is not needed to gain the necessary experience. Further, the officials said that they manage the process by assigning new monitors to work with more seasoned staff and by providing comprehensive training.

To complete weatherization work on the target number of homes statewide, TDHCA plans to increase its attention on weatherizing multifamily units. This approach may, however, introduce another risk factor for successful implementation of the Recovery Act WAP. That is, TDHCA and the subgrantees have limited experience and training on weatherizing multifamily units. TDHCA staff also said some subgrantees

are hesitant to weatherize multifamily units because they do not have experience with such work. The potential adverse affects of inexperienced subgrantees weatherizing large numbers of multifamily units is demonstrated by TDHCA's findings based on a February 2010 monitoring visit to a subgrantee in Houston (Sheltering Arms Senior Services, Inc.). TDHCA's on-site inspections of 27 multifamily units weatherized by the subgrantee found that the work completed on 13 units was not acceptable and, thus, return visits would be required to correct various workmanship deficiencies, including window caulking as well as duct work. We accompanied TDHCA's program officers during their inspections of 16 of the 27 multifamily units and observed several examples of these deficiencies. According to TDHCA documents, officials recognized the need for multifamily weatherization training some months ago but did not require such training when TDHCA established a Weatherization Training Academy shortly after receiving Recovery Act funding. TDHCA did request DOE to provide training on multifamily units. According to TDHCA officials, after numerous requests over several months by the state, DOE agreed to sponsor a workshop on multifamily weatherization this spring. The officials said that the training is scheduled for late May 2010 in Austin.

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### Cost Effectiveness of WAP Activities Could Be Enhanced by Focusing on Measures with Higher Returns on Investment

A primary objective of WAP is to reduce energy consumption and the utility bills of low-income households so that these households will spend a lower percentage of their income on energy costs. To this end, program criteria require that all homes be assessed before they are weatherized to determine what weatherization measures are appropriate for installation. According to TDHCA, DOE authorizes TDHCA's subgrantees to use two primary energy assessment methodologies to determine what weatherization measures will be installed on a dwelling. The first assessment methodology—a DOE-approved Priority List—identifies cost-effective recurring measures that can be performed on any eligible home. The approved measures are grouped by 12 major categories and include measures aimed at reducing air infiltration; sealing ducts; installing attic, sidewall, and floor insulation; replacing refrigerators and water heaters; and installing sun screens on windows. The Priority List does not include replacing windows or doors but does state that a maximum of \$400 can be expended on miscellaneous repairs, such as repairing windows. The Priority List also specifies two instances when a site-specific energy audit is warranted—when the home has ducting in the crawlspace or when the home is heated by a fuel other than natural gas, propane, or electricity.

The second assessment methodology involves using an energy audit tool—particularly the DOE-approved National Energy Audit Tool (NEAT)—to

calculate a savings-to-investment ratio (SIR) that can, in turn, be used to measure the cost-effectiveness of weatherization measures. After physically inspecting the home, the energy auditor enters proposed weatherization measures into the computer-based audit, which then ranks the measures by SIR. The installation of weatherization measures is supposed to follow the SIR ranking, and if so, the most cost-effective measure is assumed to have been installed on the dwelling before moving to the next most cost-effective step as determined by the model. DOE WAP regulations allow any approved measure with a SIR of 1.0 or higher to be installed on a dwelling.<sup>12</sup> In calculating this ratio, the model estimates energy cost savings over the life of the installed measure. For example, if the cost of an installed window is \$300—with an assumed useful life of 20 years and discounted energy cost savings estimated at \$330 over the useful life—then the calculated SIR would be 1.1 (\$330 divided by \$300). The Recovery Act WAP generally requires that the cost of installing measures cannot exceed an average of \$6,500 per dwelling.

At the time of our review, rather than using NEAT, 18 of the 44 subgrantees were using another energy audit tool, Texas EZ, that TDHCA says had been previously approved by DOE. According to TDHCA officials, Texas EZ and NEAT work alike in calculating SIRs, and either audit tool can be used to assess single-family dwellings, manufactured homes, and multifamily buildings containing 24 or fewer units. The officials noted, however, that Texas EZ is being phased out after all subgrantees are trained to use NEAT.

We found that the weatherization measures chosen for installation by subgrantees can vary significantly depending on whether the Priority List is followed or an energy audit is used to determine what measure will be installed on a dwelling. For example, we determined that by using the NEAT audit one subgrantee justified spending a significant amount of Recovery Act funding installing new windows and doors, even though these measures produce a relatively marginal payback in terms of reducing the energy costs of low-income recipients and are not included in the Priority List. Conversely, another subgrantee relied on the Priority List to support installing basic weatherization measures, such as measures to reduce air infiltration and increase attic and wall insulation that offered much greater energy savings for the money invested compared to the replacement of windows and doors allowed by NEAT. According to

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<sup>12</sup>10 C.F.R. §440.21(d).

TDHCA officials, under DOE rules, TDHCA is authorized to use either the Priority List or the NEAT model to determine what weatherization measures to install. However, based on a comparison of these two approaches, it appears that if TDHCA emphasized the use of the Priority List whenever possible, more cost-effective savings would be provided to low-income WAP recipients. Simply stated, funds spent on costly weatherization measures that offer relatively marginal energy cost reductions decrease the amount of assistance that is available for other, less-costly measures, and reduce the number of low-income people who can be served with Recovery Act funds.

We reviewed the energy assessments and weatherization measures installed by a large WAP subgrantee—Sheltering Arms Senior Services, Inc., located in Houston, Texas. According to Sheltering Arms officials, they customarily complete a NEAT audit on all dwellings as part of the assessment of a dwelling and the results of the audit are used to determine what measures will be installed on a dwelling. We inspected 16 apartments weatherized by the subgrantee and found that a NEAT audit was completed on each apartment. We also found that the exterior windows and doors were replaced on all apartments. These measures were selected based on the results of the NEAT audits. The SIRs for the replacement of windows varied from a low of 1.3 to a high of 1.7. Specific SIRs were not calculated for the doors. However, the doors were replaced even though TDHCA's *Texas Weatherization Field Guide*<sup>13</sup> indicates that the cost of new doors rarely can be justified unless they are in extremely poor condition. In the case files, we found no documentation of the doors' condition. A few additional weatherization measures were also installed on these apartments, but the installation of the windows and doors accounted for 70 percent of the \$37,000 spent weatherizing the 16 apartments. The average cost to weatherize the relatively small apartments (ranging from about 360 to just over 1,000 square feet) was slightly more than \$2,300; of this amount, the cost for new windows and doors averaged almost \$1,600 per unit. The results of air infiltration tests conducted on several of these units during our visit also raise doubts about the cost effectiveness of these weatherization measures. These tests indicated that more air was leaking from 2 of the 16 apartments after the windows and doors were installed than before the weatherization work was done. In

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<sup>13</sup>Texas Department of Housing and Community Affairs, *Texas Weatherization Field Guide* (Austin, Tex.: 2004). The guide outlines the procedures covering several areas, including the energy efficiency of existing homes. The guide also includes measures used by weatherization assessors and crews.

two other cases, air infiltration was essentially unchanged. Achieving sufficient energy-cost savings to recoup the investment in these cases is questionable.

In contrast, officials at a second WAP subgrantee—the City of Houston—told us they follow the DOE-approved Priority List because it directs the installation of cost-effective weatherization measures that immediately result in lower energy costs for the people receiving assistance. An energy audit tool is not used because, in the opinion of the Houston officials, using such an audit requires more time and cost than simply following the Priority List. And, city officials said using the Priority List allows the installation of basic weatherization measures, such as weather stripping, caulking, and adding attic and wall insulation, which are more cost effective in reducing energy costs than replacing windows and doors. We reviewed the client files for 11 single-family homes weatherized by this subgrantee and found that no windows or doors were installed; instead, many of the basic weatherization measures contained on the Priority List were installed. Because neither NEAT nor another energy audit tool was used in completing the assessments on these 11 homes, there were no corresponding SIRs for the weatherization measures that were installed. We did, however, corroborate the Houston officials' opinion that the measures installed on these homes are more cost effective than the windows and doors installed by Sheltering Arms. That is, we reviewed the results of energy audits completed by another subgrantee that installed several of the weatherization measures that were installed on the 11 homes in Houston. Examples of these measures and the corresponding SIRs show that miscellaneous air infiltration measures as simple as caulking and sealing around windows, doors, and cracks provided SIRs that ranged from 6.0 to 14.9; installing additional attic insulation provided SIRs ranging from 4.6 to 17.8; and making minor repairs and installing door sweeps provided SIRs that ranged from 2.6 to 3.5.

We also found that the Houston officials' opinion on not replacing windows and doors is supported by the *Texas Weatherization Field Guide*. The field guide states that with the exception of broken glass or missing window panes (we observed no documentation to this effect in the case files at Sheltering Arms) windows are rarely a major source of air leakage. Consequently, the field guide calls for replacing windows only when the window is missing or damaged beyond repair. Similarly, the field guide states that door replacement is rarely a cost-effective energy conservation measure and that a door should be replaced as an emergency repair only when the door is damaged beyond repair. We discussed this apparent conflict between the NEAT audit and the field guide with TDHCA

officials, who told us that an energy audit is used to determine which weatherization measures can be installed based on the calculated SIR, and the field guide provides best practices in conducting weatherization services.

TDHCA has no empirical data for assessing whether energy savings are being achieved as a result of the installed weatherization measures. For each unit being weatherized, energy consumption data are obtained for 12 months before the measures are installed, but there is no requirement for collecting energy consumption data after installation. According to TDHCA officials, such collection is not required by DOE. One subgrantee we visited, the City of Houston, is collecting actual energy consumption data to measure the level of savings being achieved after the weatherization measures were installed. Houston staff told us that the city's partnership with the local utility made the process for collecting and analyzing the data relatively simple and that information on real world savings was very useful. Measuring the actual savings being achieved by a program aimed at reducing energy consumption seems sensible. TDHCA said it is not required by DOE to collect such data. However, by comparing energy consumption data for the different approaches, we believe that TDHCA could better determine what weatherization measures provide the highest cost savings for the low-income individuals served and the highest return on program funds invested. Studies performed by the Oak Ridge National Laboratory<sup>14</sup> and others<sup>15</sup> confirm the need for collecting energy consumption data before and after the installation of weatherization measures in order to facilitate analyses of program effectiveness. Also, according to the April 2008 Oak Ridge National Laboratory study, energy audit models can often over-predict energy savings from individual measures, which can sometimes lead to recommending measures that are not cost effective. This study also noted that if installation of non-cost-effective measures was avoided, less money would be spent on each house

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<sup>14</sup>Oak Ridge National Laboratory, *Texas Field Experiment: Performance of the Weatherization Assistance Program in Hot-Climates, Low-Income Homes*, ORNL/CON-499, April 2008; and *Estimating the National Effects of the U.S. Department of Energy's Weatherization Assistance Program with State-Level Data: A Metaevaluation Using Studies from 1993 to 2005*, ORNL/CON-493, September 2005.

<sup>15</sup>Proceedings of the Tenth Symposium on Improving Building Systems in Hot and Humid Climates, (Fort Worth, Tex.: May 13-14, 1996), *Data Quality Requirements for Determining Energy Savings in the Weatherization Assistance Program (WAP)*, paper presented by representatives of Texas A&M University's Energy Systems Laboratory and TDHCA's Energy Assistance Section.

weatherized, more houses would be weatherized, and WAP's cost effectiveness would increase. Based on these collective considerations and in the interest of maximizing the impact of WAP funds, we think it may be useful for TDHCA to consider issuing guidance to its subgrantees that highlights the merits of the approach used by the City of Houston for determining what weatherization measures are to be installed through the program.

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**TDHCA Generally Has Internal Controls in Place, but Some Refinements Could Be Considered**

TDHCA has internal controls for WAP to help ensure that Recovery Act funds are spent according to program objectives and the state's 44 subgrantees are adequately monitored. Specifically, TDHCA has procedures and controls aimed at ensuring that (1) weatherization assistance is limited to eligible households, (2) only appropriate work is undertaken at eligible homes, and (3) all work is completed and inspected before payments are made. Further, TDHCA plans to monitor internal control implementation by subgrantees. Nonetheless, several potential refinements for enhancing internal controls and monitoring have been identified in reviews conducted by TDHCA's Internal Audit Division and us.

**TDHCA's System of Internal Controls and Monitoring**

TDHCA—in its accountability guidance for the WAP's use of Recovery Act funds—has specified various internal controls that subgrantees are required to implement. The internal controls are based on DOE requirements and include the following:

- Before any weatherization work is undertaken, the subgrantee is to determine the applicant's eligibility by verifying the applicant's income and assessing the applicant's energy bills. Each client file is to include documentation, such as an earnings statement or a letter from the Social Security Administration, establishing that the applicant's annual income does not exceed the eligibility requirement (200 percent of the poverty level). Regarding income verification, under current guidance, an applicant may report income for a single 30-day period—which the subgrantee can project to determine whether the applicant meets annual income limits.<sup>16</sup>
- After eligibility is established, the applicant's dwelling is to be assessed to identify appropriate weatherization measures. The assessment is to

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<sup>16</sup>Applicants are also commonly referred to as being "clients" of the subgrantee.

be based on either DOE's Priority List of pre-approved measures or an energy audit tool (DOE's NEAT or Texas EZ). If an energy audit tool is used, each of the prospective weatherization measures for the dwelling is to be ranked based on SIRs, and the higher-scoring improvements are to be initiated first.<sup>17</sup> Documentation supporting the basis for the weatherization measures undertaken must be included in the client's file and available for independent review by TDHCA.

- After the weatherization work is completed on the dwelling and before the contractor is paid, the subgrantee is responsible for inspecting the dwelling to ensure that all agreed-upon work was completed appropriately. The subgrantee is to maintain a record of the inspection—a certification form signed by the inspector.

Regarding statewide monitoring of WAP-related Recovery Act funds, DOE requires that every subgrantee be visited by the respective state's oversight agency at least once annually. Also, in conjunction with the annual visits, DOE requires the state oversight agency to review subgrantee records and client files, as well as inspect at least 5 percent of the completed units or units in the process of being weatherized.

TDHCA has reported that it intends to exceed the minimum monitoring requirements established by DOE. In April 2009, TDHCA submitted its initial WAP plan to DOE. The plan stated that TDHCA would visit each subgrantee at least annually and review a minimum of 10 percent of the units weatherized and 10 percent of the client files. More recently, in March 2010, TDHCA submitted a revised plan, which expands the goal of monitoring visits to at least four times annually but reduces the percentage of file review and unit inspections to align with the DOE requirement of at least 5 percent inspection coverage.

#### TDHCA Internal Audit and Our Reviews Identify Possible Enhancements

In December 2009, in light of the large infusion of Recovery Act funds for WAP, TDHCA's Internal Audit Division initiated a review of the agency's monitoring process. Among other objectives, the review focused on determining whether TDHCA's monitors have sufficient resources, support, and training to effectively monitor WAP. On April 27, 2010, the Internal Audit Division issued its report to the Governing Board and Audit Committee members of TDHCA. The report concluded that the monitoring

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<sup>17</sup>As mentioned previously, under WAP guidelines, any prospective weatherization improvement with a SIR score of 1.0 or higher is eligible to be installed at a dwelling.

process is well-designed and comprehensive, but enhancements can be made to increase efficiency and communicate results more timely.

Program officers in TDHCA's Community Affairs Division are responsible for monitoring subgrantees' compliance with WAP requirements. In February 2010, we accompanied a team of program officers during a monitoring visit to a subgrantee in Houston—Sheltering Arms Senior Services, Inc., a nonprofit entity providing services for residents of Harris County.<sup>18</sup> The Community Affairs Division's resulting report, dated April 12, 2010, listed various deficiencies. For example, the report noted that 33 of the 53 units inspected by the division's program officers had workmanship deficiencies. Also, regarding required documentation, the report noted that the subgrantee's client files for 18 of the units did not have a certification of final inspection signature page. To correct the various deficiencies, the division's report specified actions to be implemented by the subgrantee.

Our on-site work also included visiting (in March 2010) two additional subgrantees. One of these, the Alamo Area Council of Governments (AACOG), has many years of WAP-related experience in the City of San Antonio, Bexar County, and 11 other counties—experience that long predates the Recovery Act. The other subgrantee, the City of Houston, is new to the program. Our review found that AACOG's client files contained all relevant documentation. In contrast, the City of Houston's client files had deficiencies. Specifically, our review of 11 randomly selected client files found that 9 files had no post-work certification form signed by an inspector.<sup>19</sup> Also, although the other 2 files did contain a certification form, we found that the form was signed by the contractor that performed the weatherization work rather than by the subgrantee's inspector. In response to our findings, the subgrantee stated that corrective actions would be taken. Subsequently, for example, the subgrantee told us that communication problems between contractors and post-work inspectors have been addressed and the case file management process has been streamlined. More broadly, although not projectable to other locations, our findings suggest that TDHCA may wish to consider adjusting the

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<sup>18</sup>The team also included one staff member from TDHCA's Internal Audit Division.

<sup>19</sup>We randomly selected 11 files from the total of 24 files. At the time of our visit in March 2010, the subgrantee reported that weatherization work had been completed on 24 dwellings.

department's monitoring plan to provide comparatively more focus on the WAP's 11 new subgrantees relative to the 33 experienced subgrantees.

Finally, during our on-site reviews of the two subgrantees, we noted that TDHCA allows an applicant to report income for only a 30-day period, which then can be projected by the subgrantee to determine whether the applicant meets annual income limits. We did not test the potential implications of this approach. However, in March 2010, New Jersey's state auditor reported that a similar approach used in that state—projecting annual income from as little as a 30-day period—led to ineligible individuals being approved.<sup>20</sup> The audit report noted, for example, 12 instances where applicants with household incomes over \$100,000 in 2008 were approved because they did not provide their annual income. Given the findings in New Jersey, TDHCA may wish to consider whether eligibility controls in Texas should be tightened to reduce the risk of similar problems.

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**TDHCA Has Not Set Certification or Minimal Training Standards for Weatherization Workers but Has Established a Training Academy to Standardize Training**

According to TDHCA officials—other than professionally required licensing typically applicable to heating, ventilating, and air conditioning or other work—TDHCA does not require that its program officers (nor subgrantees or their weatherization contractors) have a state certification or meet minimal training requirements to work on WAP projects. Under DOE regulations, TDHCA is not obligated to establish such requirements, but some states have done so.<sup>21</sup> DOE officials told us that the department is working to develop a nationwide certification program but do not anticipate it being ready for implementation this year. Because of the significant increase in WAP funding and the number of homes to be weatherized, TDHCA decided to use about \$5.5 million in Recovery Act funding to develop a training curriculum for weatherization work and establish a Training and Technical Assistance Academy (Training Academy). Certification of workers was not included as part of the Training Academy, largely because Recovery Act funds represent a one-time expansion of the existing program, and TDHCA officials considered it

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<sup>20</sup>New Jersey State Legislature, Office of Legislative Services, Office of the State Auditor, *Department of Community Affairs American Recovery and Reinvestment Act Weatherization Assistance Program Eligibility* (Trenton, N.J.: March 26, 2010). The audit report covered the period April 1, 2009, to December 4, 2009.

<sup>21</sup>However, DOE requires all states to include a training and technical assistance plan in their application for weatherization funds. 10 C.F.R. § 440.12(b)(7).

imprudent to establish certification requirements without certainty of an ongoing funding source. If sufficient funds are available from DOE in the future, TDHCA officials indicated that the agency may consider pursuing a certification requirement for weatherization workers.

In October 2009, TDHCA contracted with ACS State & Local Solutions, Inc., to establish a Training Academy offering a range of weatherization/energy-efficiency and administrative instruction through a combination of classroom teaching, online instruction, and field work. Regarding design curriculum for the Training Academy, officials explained that the contract required development (in cooperation with TDHCA) of coursework that includes classes on basic weatherization and advanced weatherization. For example, the basic course is to include instructions on the principles of energy, building science, inspection and diagnostics, and energy audit; and the advanced weatherization course is to include instruction on the flow of building heat, air leakage and sealing, insulation, hazardous materials, health and safety, consumer energy education, weatherizing manufactured housing, and follow-up and maintenance of installed weatherization measures. According to TDHCA, the Training Academy also teaches a lead safety course. As of May 3, 2010, TDHCA reported that the Training Academy had provided WAP-related training to 909 students—which includes employees of TDHCA, subgrantees, and subcontractors. TDHCA officials said that, while not mandatory, the department also sponsors other training courses and conferences throughout the year directly related to WAP.

The Training Academy does not teach a course on the new Davis-Bacon requirements placed on WAP by the Recovery Act. However, according to TDHCA officials, Davis-Bacon training was intentionally kept separate from the Training Academy. The officials explained that TDHCA and the U.S. Department of Labor jointly conducted four training sessions on Davis-Bacon requirements in November 2009. We reviewed TDHCA documentation confirming that the four training sessions were held in Dallas, El Paso, Houston, and San Antonio. Also, TDHCA officials said that each subgrantee was required by TDHCA to attend a one-on-one preconstruction conference with TDHCA Davis-Bacon staff.

Finally, TDHCA has not required the Training Academy to develop or teach a course on weatherizing multifamily units. The need for such training is likely to increase since TDHCA's accelerated pace for WAP will be reliant on increased subgrantee attention to weatherizing multifamily units. TDHCA and subgrantees have little experience weatherizing these types of dwellings and, according to TDHCA, many subgrantees are

reluctant to take on multifamily projects because the subgrantees are fearful of the complications that could be associated with doing so. In recognition of the need for training, TDHCA says it has requested that DOE provide comprehensive multifamily units weatherization training for Texas. According to TDHCA officials, DOE agreed to sponsor a workshop this spring. The officials said that the training is scheduled for late May 2010 in Austin and they will include such training in the Training Academy's course offerings.

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## Clean Water and Drinking Water Programs: Texas Met the Deadline for Having Recovery Act Funds under Contract and Has a System in Place to Help Ensure Accountability

The state of Texas received \$180.9 million in Recovery Act funding for the state's Clean Water State Revolving Fund<sup>22</sup> and \$160.7 million in Recovery Act funding for the Drinking Water State Revolving Fund. The base Clean Water and Drinking Water SRF programs, established in 1987 and 1996 respectively, provide states and local communities independent and permanent sources of subsidized financial assistance, such as low or no-interest loans for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations. According to officials, TWDB established a solicitation and ranking process and met the Recovery Act requirement to have Recovery Act-funded SRF projects under contract by February 17, 2010. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects. State officials said that they encountered a challenge awarding the funds because the Environmental Protection Agency (EPA) did not provide clear and timely guidance on qualifying "green reserve" projects—that is, green infrastructure,<sup>23</sup> water or energy efficiency, or other environmentally innovative activities. According to EPA and TWDB, multiple oversight and monitoring efforts, both within TWDB and by EPA auditors and program staff, are underway or planned to ensure accountability for use of Recovery Act funds by subrecipients.

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<sup>22</sup>Of the \$180.9 million in Recovery Act funding for the Clean Water SRF, \$179.1 million went to TWDB, and \$1.8 million went to the Texas Commission on Environmental Quality.

<sup>23</sup>Green infrastructure clean water projects include projects such as bioretention, green roofs, and the preservation and restoration of natural landscape features like floodplains. Green infrastructure drinking water projects include projects such as wet weather management systems, green roofs, and porous pavement at drinking water facilities.

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Texas Water Development Board Established a Solicitation and Ranking Process for Recovery Act Projects and Met the Deadline to Have Funds under Contract

As part of its routine annual process, TWDB began the solicitation process for potential Recovery Act projects in October 2008, before the act passed. TWDB sent a solicitation to eligible entities across Texas, such as wastewater and water systems. In response, TWDB reported that it received funding requests that totaled \$3.3 billion for Clean Water SRF projects and \$3.4 billion for Drinking Water SRF projects. To give priority to shovel-ready projects, TWDB first grouped the applications by construction start dates by month and, within each month, TWDB ranked the projects by water quality score.<sup>24</sup> Then, TWDB ranked the projects by the Recovery Act requirement that at least 50 percent of the act's funding for SRF projects be awarded in the form of additional subsidization<sup>25</sup> and 20 percent of the funding be awarded to support green reserve projects. In some instances, the additional subsidization and the green reserve requirements resulted in projects with otherwise higher priority (based on construction start dates and water quality scores) not receiving Recovery Act funding.

According to TWDB officials, the construction bids received for both the Clean Water SRF projects and the Drinking Water SRF projects were lower than the anticipated project costs. Specifically, the officials reported that the average construction bid for Clean Water SRF projects was 89 percent of the applicant's engineering cost estimate within the original commitment amounts, and the average construction bid for Drinking Water SRF projects was 79 percent of the applicant's engineering cost estimate. TWDB officials explained that—to mitigate the risk of not meeting the February 17, 2010, deadline and having to return funding to EPA—the state invited additional applicants (termed “provisional applicants”) to apply.<sup>26</sup> As a result of the lower-than-expected construction

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<sup>24</sup>Water quality scores for clean water projects are determined by TWDB based on criteria such as the need for improved wastewater treatment, extension of service to unserved communities, and the need to address judicial and agency compliance orders. Water quality scores for drinking water projects are determined by the Texas Commission on Environmental Quality and TWDB, and are based on criteria, such as total health and compliance factors, total physical deficiencies, and affordability.

<sup>25</sup>In March 2009, TWDB adopted a policy that the additional subsidization would be made available to those entities that meet existing SRF program eligibility requirements as disadvantaged communities and that the additional subsidization would be offered in the form of a grant. Disadvantaged community status takes into account factors such as adjusted median household income and household costs.

<sup>26</sup>According to TWDB, those provisional applicants not needed to assist in meeting Recovery Act goals were to be funded from the 2010 Clean Water or Drinking Water SRF Intended Use Plan.

bids, contracts were awarded below applicant cost estimates and TWDB reported that \$22 million was made available for additional Clean Water SRF projects and \$42 million for additional Drinking Water SRF projects. With these freed-up funds, TWDB awarded funding to two provisional applicants for Clean Water SRF projects and eight provisional applicants for Drinking Water SRF projects.

TWDB successfully met the Recovery Act's deadline (February 17, 2010) to get projects under contract. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects.

### Texas Expects Several Benefits from Funded Projects

State and local officials cited various benefits from projects funded by the Recovery Act, such as decreased water loss and improved water quality. Clean Water SRF projects and Drinking Water SRF projects will benefit multiple entities because Recovery Act funding is dispersed across Texas. The amounts of Recovery Act funding awarded to projects range from \$305,000 for a solar-powered machine to reduce taste and odor problems in a Greenville drinking water green project to \$48 million for upgrading a water treatment plant and replacing waterline pipes in Laredo. According to Laredo Utilities Department officials, the upgrade of the Jefferson Water Treatment Plant and the replacement of waterline pipes will improve water quality, decrease water loss and energy costs, and enable the plant to function during power outages. In addition, officials from the Texas Commission on Environmental Quality (TCEQ) stated that the Recovery Act-funded improvements will help to address repeated problems with one of the city's water treatment plants operating beyond its capacity.<sup>27</sup> According to TCEQ, the City of Laredo was subject to state enforcement actions in 2009 due to noncompliance associated with these operational problems.<sup>28</sup>

A \$31.8 million Clean Water SRF project in Austin is also expected to have environmental and financial benefits. Austin Water Utility received funding from TWDB in the form of a zero-interest loan for improvements to the

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<sup>27</sup>The Texas Commission on Environmental Quality is the environmental agency for the state of Texas and oversees water quality.

<sup>28</sup>In 2009, the Jefferson Water Treatment Plant was the subject of 14 violations, such as insufficient monitoring of turbidity and filter processes, out-of-date plans, and deficient capacity. As of February 2010, TCEQ officials told us that all violations (except those related to deficient capacity) against the City of Laredo were addressed and closed.

Hornsby Bend Biosolids Management Plant, which treats and converts sludge produced by the city’s wastewater treatment plants into a reusable resource known as “Dillo Dirt,” a nutrient-rich soil conditioner used across the city on lawns, gardens, parks, golf courses, and other areas. The Recovery Act-funded improvements to the Hornsby Bend Biosolids Management Plant constitute the largest green project in Texas. Austin Water Utility officials commented that the plant improvements will generate multiple environmental benefits, including a reduction in diesel fuel use by 30,000 gallons per year, a decrease in off-site land application, and a reduction in greenhouse gases. In addition, the officials cited the financial benefits of the Clean Water SRF interest-free loan, which generates cost savings for the City of Austin. Furthermore, the Austin Water Utility officials commented that—in the absence of Recovery Act funding—any improvements to the Hornsby Bend Biosolids Management Plant likely would have been made in a piecemeal fashion and would have cost the city more.

Green Reserve Project Requirement Presented Challenges, Particularly for Drinking Water Projects

TWDB officials stated that meeting the 20 percent green reserve requirement for use of Recovery Act funds was particularly difficult for the Drinking Water SRF program. At the time of TWDB’s solicitation in October 2008, the Recovery Act was yet to be enacted. Thus, the specific provisions of the prospective act were unknown, and according to officials, TWDB’s solicitation did not include a call for green Drinking Water SRF projects. Subsequently, TWDB coordinated with EPA Region 6 and concluded that a specific solicitation for green reserve Drinking Water projects was necessary.<sup>29</sup> TWDB officials explained that, following the May 2009 resolicitation, they worked with EPA Region 6, EPA contractors, and potential subrecipients to identify drinking water projects that could potentially qualify as green and, then, to develop business cases for those projects. According to TWDB’s Recovery Act Director, the initial guidance from EPA lacked clear criteria as to which projects could qualify as green. For instance, the guidance was unclear regarding whether the replacement of leaking waterline pipes would qualify. Also, both TWDB and EPA Region 6 officials commented that differences existed across EPA regions in implementing the green reserve criteria. For example, EPA Region 6 officials said that their regional office reviewed all business cases for green reserve projects to determine whether they qualified as green or not, but other EPA regions allowed states to make these determinations. In

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<sup>29</sup>EPA Region 6 serves Arkansas, Louisiana, New Mexico, Oklahoma, and Texas, as well as the Tribal lands located within the region.

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February 2010, EPA's Office of Inspector General issued a report that recognized the need for more definitive guidance.<sup>30</sup>

Despite the various challenges, TWDB reported that it met the 20 percent green reserve project requirement, with 16 of the state's 25 Drinking Water SRF projects containing a green component.<sup>31</sup>

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### Various Oversight and Monitoring Efforts to Ensure Accountability Are Under Way or Planned

The EPA Office of Inspector General (OIG) is inspecting Recovery Act-funded Clean Water and Drinking Water SRF projects. The purpose of these visits is to determine compliance with selected requirements of the Recovery Act, such as the Buy American provision, and the Davis-Bacon wage-setting requirements. According to the EPA OIG, as of May 1, 2010, site reviews have been initiated in 5 of the 10 EPA Regions. In addition, the EPA OIG plans to conduct a performance audit of states' oversight of Clean Water SRF Recovery Act-funded projects. The OIG selected Texas and two other states to include in this review. According to the OIG, the scope of the work in Texas, planned for spring 2010, will include a review of applicable contracts and related files as well as on-site visits by engineers.

EPA Region 6, which oversees Texas's SRF programs, reported that it is conducting performance reviews as part of its programmatic oversight. EPA Region 6 plans to conduct two Recovery Act performance reviews in federal fiscal year 2010, one midyear review and one end-of-year review. As part of each performance review, EPA Region 6 plans to conduct four project file reviews. According to EPA Region 6 officials, they visited Texas in March 2010, which satisfied the federal fiscal midyear review.

Also, TWDB officials told us that the agency has various oversight and monitoring efforts underway or planned for Recovery Act projects in Texas. The officials reported that, among other efforts, inspection and field support staff are to visit subrecipients at every site once every month, at a minimum. For example, the officials said TWDB staff conducted a site

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<sup>30</sup>U.S. Environmental Protection Agency, Office of Inspector General, *EPA Needs Definitive Guidance for Recovery Act and Future Green Reserve Projects*, Report No. 10-R-0057 (Washington, D.C.: Feb. 1, 2010).

<sup>31</sup>Of the 21 Clean Water SRF projects that were selected by TWDB to receive Recovery Act funding, 7 contained either a green component or were fully categorized as a green reserve project.

visit in March 2010 to the Drinking Water SRF Recovery Act project in the City of Mission. According to TWDB, the inspection showed that the progress of construction was reasonable; however, the inspection also found that labor wage determination signage was not displayed at the site. Further, the TWDB officials stated that engineers are to make on-site visits to each Recovery Act project within an upcoming 6-month period. Also, the officials said that TWDB was in the process of hiring a contractor to inspect all Recovery Act-funded projects to detect and prevent fraud, waste, and abuse.

Moreover, TWDB reported that it conducted training sessions for subrecipients of Recovery Act funding and also developed a handbook to help ensure compliance with requirements.<sup>32</sup> The training sessions and handbook offer guidance on subrecipient responsibilities and related topics such as Buy American and Davis-Bacon requirements, accounting system, and monthly reporting requirements. For example, TWDB officials described the recipient reporting process as centralized at the state level, with subrecipients being responsible for providing updates monthly to TWDB. Based on construction schedules for SRF projects in Texas, TWDB officials anticipate that the reported number of jobs funded with Recovery Act dollars will peak during September to December 2010.

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## Housing Agencies in Texas Met the Deadline for Obligating Recovery Act Funds; Oversight Efforts to Monitor Expenditures Are Ongoing

Of the 415 public housing agencies in Texas, 351 collectively received \$119.8 million in Public Housing Capital Fund formula grants under the Recovery Act. These grant funds were provided to the agencies to improve the physical condition of their properties. As of March 17, 2010, the recipient public housing agencies had obligated all of the \$119.8 million. Also, 308 of the recipient agencies had drawn down a cumulative total of \$55.0 million from the obligated funds, as of May 1, 2010.

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<sup>32</sup>Texas Water Development Board, *ARRA Handbook: Guidance for Subrecipients* (Austin, Tex.: December 2009).

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## Meeting the Deadline for Obligor Funds Was Achieved through Collaborative Efforts

HUD and the recipient public housing agencies collaborated to achieve 100 percent obligation of the Recovery Act funds in Texas by the March 17 deadline. The two HUD program offices that we contacted in Texas (the Fort Worth Regional Office and the San Antonio Field Office) reported that they hosted training sessions for the public housing agencies under their respective jurisdictions that received Recovery Act funding—training that covered procurement policy and other Recovery Act requirements.<sup>33</sup> Also, as another broadly applicable type of assistance or outreach to help public housing agencies meet the March 17 deadline, the HUD offices used standardized checklists to conduct reviews of all public housing agencies within their respective jurisdictions.<sup>34</sup> According to HUD, all public housing agencies received a remote review, and some of the agencies also received an on-site review.<sup>35</sup> For example, the San Antonio Field Office reported completing

- both a remote review and an on-site review for each of the six troubled housing agencies within its jurisdiction by July 2009;<sup>36</sup> and
- a remote review of all nontroubled housing agencies within its jurisdiction by December 2009, and an on-site review of 15 of these agencies by February 2010.

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<sup>33</sup>The Fort Worth Regional Office reported that 219 public housing agencies within its jurisdiction received Recovery Act funding, and the San Antonio Field Office reported that 88 public housing agencies within its jurisdiction received funding.

<sup>34</sup>The standardized checklists are designed specifically to facilitate review of Recovery Act implementation by addressing grant initiation and approval procedures, procurement policy requirements, and other relevant topics. Further, following the March 17 obligation date, the HUD program offices we contacted anticipate using similarly standardized checklists (modified as applicable) for monitoring public housing agencies' expenditures of Recovery Act funds.

<sup>35</sup>As the name implies, an on-site review is conducted at the location of the public housing agency. In contrast, a remote review is conducted at a HUD field office. In conducting a remote review, HUD field office personnel examine information that has been provided by the public housing agency. Such information includes, for example, copies of newly adopted or revised policy documents, funding data and contracting actions, and audit reports. According to HUD, remote monitoring can identify issues, problems, or concerns and also help determine the necessity for an on-site review.

<sup>36</sup>HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of housing agencies' public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

Further, officials at the two HUD program offices reported that—as the March 17 deadline approached—their staffs conducted weekly conference calls with housing agencies to discuss Recovery Act-related questions and obtain updates on the obligation status of funds. Moreover, the officials noted that continuing outreach was made by telephone and e-mail or in person, with one-on-one technical assistance provided to housing agencies, as needed.

We visited four public housing agencies in Texas. Table 1 lists the agencies, the amount of funds awarded, and the planned use of the funds.

**Table 1: Recovery Act Public Housing Capital Fund Formula Grants in Texas—Planned Use of Funds by Four Public Housing Agencies**

Public housing agency and total funds awarded	Planned use of funds
San Antonio Housing Authority (SAHA) \$14,557,802	<ul style="list-style-type: none"> <li>• Comprehensive modernization improvements to Lewis Chatham Apartments (119 units), an elderly and disabled community.</li> <li>• Upgrades to elevator, fire alarm, and security systems at 5 elderly communities.</li> <li>• Safety and sustainability repairs and improvements to playgrounds in public housing family communities.</li> <li>• Various site and system repairs and replacements, including sliding glass doors; roofing; fencing; cabinets; and heating, ventilation, and air-conditioning (HVAC) systems.</li> </ul>
Housing Authority of the City of El Paso (HACEP) \$12,715,540	<ul style="list-style-type: none"> <li>• Roofing and HVAC systems replacements in 15 communities.</li> <li>• Water and wastewater line replacements in 2 communities.</li> <li>• Windows replacements in 2 communities.</li> </ul>
McKinney Housing Authority \$343,674	<ul style="list-style-type: none"> <li>• Windows and roofing replacements at various sites.</li> </ul>
Ferris Housing Authority \$57,868 <sup>a</sup>	<ul style="list-style-type: none"> <li>• Windows and sewer lines replacements, bathroom renovations, and drainage work.</li> </ul>

Source: GAO summary of HUD and public housing agencies' data.

<sup>a</sup>Ferris Housing Authority had expended its funds as of June 2009 for the planned improvements, as we noted in our July 2009 report ([GAO-09-580](#)).

The four agencies acknowledged the variety and extent of the assistance and outreach efforts provided by HUD. One of the housing agencies—the San Antonio Housing Authority (SAHA)<sup>37</sup>—asked for assistance from HUD’s San Antonio Field Office in preparing a request for a Buy American

<sup>37</sup>Of the hundreds of public housing agencies in Texas, SAHA received the highest amount (\$14.6 million) of Public Housing Capital Fund formula grants awarded under the Recovery Act.

waiver.<sup>38</sup> Specifically, SAHA wanted permission to purchase a specialized heating, ventilating, and air conditioning system manufactured in Japan. The request was based on an engineering consultant's recommendation that cited energy-efficiency and maintenance considerations as well as market research that found no domestic manufacturer of the specialized system. In November 2009, SAHA submitted the request to HUD's San Antonio Field Office. HUD's Assistant Secretary for Public and Indian Housing responded in December that the request was "well supported by the appropriate documentation" and granted SAHA a waiver.<sup>39</sup>

In early March 2010—before the impending March 17 obligation deadline for Recovery Act funds—the Housing Authority of the City of El Paso (HACEP)<sup>40</sup> had obligated 27 percent of the \$12.7 million received. HACEP officials explained that they had postponed awarding contracts and decided to resolicit proposals for roofing work after receiving bids that HACEP considered to be inflated. The officials added that in arriving at this decision, HACEP and HUD Fort Worth Regional Office officials had frequent discussions about the need to meet the obligation deadline. The HACEP officials further explained that the resolicitation was issued with an outreach beyond the immediate El Paso area. This management effort, according to the officials, resulted in substantial cost savings that allowed HACEP to fund additional improvements to properties—while still meeting the March 17th obligation date.

Officials at the HUD offices and the public housing agencies we contacted commented that staff priorities and workloads were adjusted as needed to accommodate handling both Recovery Act and regular public housing capital grant funds. HUD officials cited forming new teams with existing resources to handle Recovery Act demands and continue regular capital fund grant management activities. Similarly, housing agency officials cited adjusting their resources to ensure meeting the Recovery Act's obligation date while continuing to obligate regular capital grant funds. For example,

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<sup>38</sup>Section 1605(a) of the Recovery Act states that, "None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States."

<sup>39</sup>According to HUD's Fort Worth Regional Office, the waiver approved for SAHA is unique; that is, there have been no other waiver requests from public housing agencies in the region.

<sup>40</sup>HACEP received the second highest amount (\$12.7 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act.

by shifting priorities and increasing their workloads, two of the four housing agencies reported that they met the Recovery Act's deadline (March 17, 2010)—and also had obligated over 50 percent of their fiscal year 2009 regular capital grant funds as of February 28, 2010, or about 19 months before the funds must be obligated.<sup>41</sup> As of March 31, 2010—about 6 months into the 2-year time frame for obligating fiscal year 2009 regular capital grant funds—the other two housing agencies reported that they had obligated no regular funds but had met the Recovery Act's obligation deadline.

None of the four public housing agencies that we contacted expressed difficulty meeting HUD's requirements for the use of capital grant funds, such as the requirement for priority consideration to low- and very low-income persons and the businesses that employ them when creating opportunities using the funds.<sup>42</sup> However, a McKinney Housing Authority official stated that the agency has few staff, which—coupled with the shortened time frames for obligating and expending Recovery Act funds—presented concerns in deciding whether to start projects. Also, a Ferris Housing Authority official—one member of the agency's two-person staff—said that reporting requirements have been burdensome. The official stated that although his agency obligated its Recovery Act funds early on, the agency has had to submit several reports on matters such as the number of jobs created and/or retained. Another agency, SAHA, commented that complying with the Recovery Act's Buy American provision presented some challenges. However, as previously discussed, SAHA requested a waiver for one renovation project; and, with assistance from HUD's San Antonio Field Office, the waiver was granted.

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<sup>41</sup>Under 42 U.S.C. § 1437g(j), public housing agencies must generally obligate 100 percent of their funds within 2 years of the date the funds are made available.

<sup>42</sup>Section 3 is a provision of the Housing and Urban Development Act of 1968 that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency. Among other requirements under this provision, housing agencies are to meet goals including (1) 30 percent of the aggregate number of new hires shall be Section 3 residents (low and very low-income persons residing in the community in which HUD funds are spent regardless of race and gender), (2) 10 percent of all covered construction contracts shall be awarded to Section 3 business concerns (businesses that substantially employ low and very low-income persons residing in the community in which HUD funds are spent), and (3) 3 percent of all covered non-construction contracts shall be awarded to Section 3 business concerns.

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## Various Entities Are Responsible for Monitoring Expenditures

Oversight responsibilities for monitoring expenditures of Public Housing Capital Fund formula grants awarded under the Recovery Act involve various entities—particularly HUD’s Office of Inspector General and HUD’s program office for public housing. In 2009, HUD’s Office of Inspector General (Region VI) conducted Recovery Act-related capacity audits of two public housing agencies in Texas—the Dallas Housing Authority and the Travis County Housing Authority.<sup>43</sup> The Office of Inspector General reported that the Dallas Housing Authority demonstrated the capacity to administer its grant in accordance with requirements.<sup>44</sup> In contrast, the Office of Inspector General reported that the Travis County Housing Authority lacked the capacity to administer Recovery Act funds.<sup>45</sup> Among other considerations, the Office of Inspector General recommended that HUD’s San Antonio Field Office increase monitoring and oversight of the Travis County Housing Authority’s financial and program activities.

As of March 31, 2010, the Office of Inspector General reported that it had no other ongoing or planned capacity audits in Texas regarding Public Housing Capital Fund grants awarded under the Recovery Act.

However, public housing program officials in HUD’s Fort Worth Regional Office and San Antonio Field Office plan to continue monitoring public housing agencies’ use of Recovery Act funds by, among other means, conducting remote and on-site reviews. As noted previously, these reviews are to include use of standardized checklists, modified as applicable to focus on the appropriateness of expenditures. The officials explained that the reviews are to determine if the public housing agencies are complying with Recovery Act procurement policy and related requirements and are disbursing and expending funds for approved activities. More specifically, according to HUD’s monitoring and oversight guidance, the local program offices are to review disbursements and expenditures for a minimum of 25 percent of the total Recovery Act grant for each non-troubled public

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<sup>43</sup> A capacity audit is a limited scope review to determine whether a grantee’s administrative systems are capable of effectively administering a large influx of Recovery Act funds—that is, to determine whether the public housing authority has the capacity to properly account for Recovery Act funding and the controls to ensure those funds are expended only for eligible program activities.

<sup>44</sup> HUD, Office of Inspector General, Region VI, Audit Report Number 2010-FW-1001, issued December 18, 2009.

<sup>45</sup> HUD, Office of Inspector General, Region VI, Audit Report Number 2009-FW-1801, issued August 17, 2009.

housing agency, including at least one construction/modernization contract.<sup>46</sup> Also, for public housing agencies categorized as “troubled,” the guidance provides for additional monitoring and oversight by HUD field offices as deemed necessary to ensure proper use of Recovery Act funds.

The public housing agencies that receive Recovery Act funds are to ensure that the funds are used appropriately, particularly when negotiating contracts and monitoring the performance of contractors. Through their procurement processes and procedures, these agencies are to directly oversee the commitment and disbursement of Recovery Act funds. SAHA, which received the largest amount (\$14.6 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act, plans to use more than \$6 million of the funds to modernize a 119-unit apartment complex (Lewis Chatham Apartments) for elderly and disabled residents. In March 2010, we visited San Antonio to observe the status of ongoing renovations at the Lewis Chatham project; and, at SAHA, we reviewed contracts and related documents. According to SAHA officials, the renovation work at the Lewis Chatham project was being procured through competitive bidding processes. We previously visited the Lewis Chatham modernization project in May and October 2009, as discussed in our December 2009 report.<sup>47</sup> The report noted that—in the wake of federal bribery-related indictments in June 2009 against several employees<sup>48</sup>—SAHA had taken measures to strengthen internal controls. Among other actions taken, officials explained that SAHA revised its Procurement Policy and Procedures manual in August 2009 to assign specific responsibilities to department directors.<sup>49</sup> According to officials, the

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<sup>46</sup>HUD defines a construction/modernization contract as one that includes a commitment of funds for contract labor and/or materials; and, the contract should be a non-services contract in which activities relate to construction, modernization, and/or demolition.

<sup>47</sup>[GAO-10-232SP](#).

<sup>48</sup>U.S. Department of Justice, U.S. Attorney’s Office, Western District of Texas, press release (June 18, 2009), “Five San Antonio Housing Authority Employees Charged in Federal Bribery-Related Indictments.” The press release noted that an indictment is a formal accusation of criminal conduct, not evidence of guilt, and that the defendants are presumed innocent unless and until convicted through due process of law. As of April 2010, U.S. District Court (Western District of Texas) records showed that one of the defendants had pled guilty and that the other four defendants were awaiting trial.

<sup>49</sup>More recently, on January 5, 2010, SAHA revised the manual for Recovery Act purposes to require a file retention time frame of 3 years; that is, records are to be retained for a period of 3 years after final payment and all matters pertaining to the applicable contract are closed.

revised manual stipulates that each department director is responsible for establishing quality control mechanisms for procurement activities within the respective department.

Officials further explained that the manual also specifies that the Chief Financial Officer is responsible for the oversight of all procurement activity within SAHA. At our request, the Chief Financial Officer provided us documentation of control activities conducted by SAHA's Facilities and Construction Services Department, which manages projects funded by the Recovery Act. For construction contracts, the documented control activities include a series of check-and-balance steps before payments are made to contractors. During our March 2010 visit to SAHA, department staff walked us through a demonstration of how the various steps operate.

Regarding the number of jobs funded with Recovery Act Capital Fund formula grant dollars, in April 2010, SAHA reported 29.05 full-time equivalents into FederalReporting.gov. To help ensure accuracy in job reporting, SAHA officials said that the agency requires its contractors to use a standardized instrument for submitting hours worked on Recovery Act projects each quarter.

HACEP, which received the second highest amount (\$12.7 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act, is using most of its funds (\$11.4 million or 90 percent) for modernization efforts that include replacing roofs, windows, HVAC systems, and water and sewer lines. In early March 2010, we visited HACEP. During our visit, we noted that a contract entered into by HACEP in November 2009—a roofing contract for \$702,800—did not include a Buy American provision. However, in response to our inquiry, HACEP officials obtained confirmation from the manufacturer that the shingles being used in the project are American made. Further, the officials stated that all other contracts do contain a Buy American provision. Our review of current contracts at the time of our March 2010 visit confirmed that the provision was included. Furthermore, according to HACEP officials, all of these contracts were awarded competitively.

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## Use and Impact of Recovery Act Funds by State of Texas and Local Governments

As of March 28, 2010, Texas state entities had spent about \$8.3 billion of the approximately \$17.5 billion in Recovery Act funds awarded to the state, according to the State Comptroller's Office.<sup>50</sup> The amount of Recovery Act funding that has been spent varies among programs, and Texas state agencies continue to prepare for the end of Recovery Act funding. At the local government level, city officials in Austin, Dallas, and Houston reported they plan to use Recovery Act funds to expand existing programs and support new programs. However, while finding the federal funds useful in advancing specific priorities, the city officials anticipated the funds would have a limited overall impact on their ability to address growing budgetary challenges.

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## State of Texas Continues to Use Recovery Act Funds

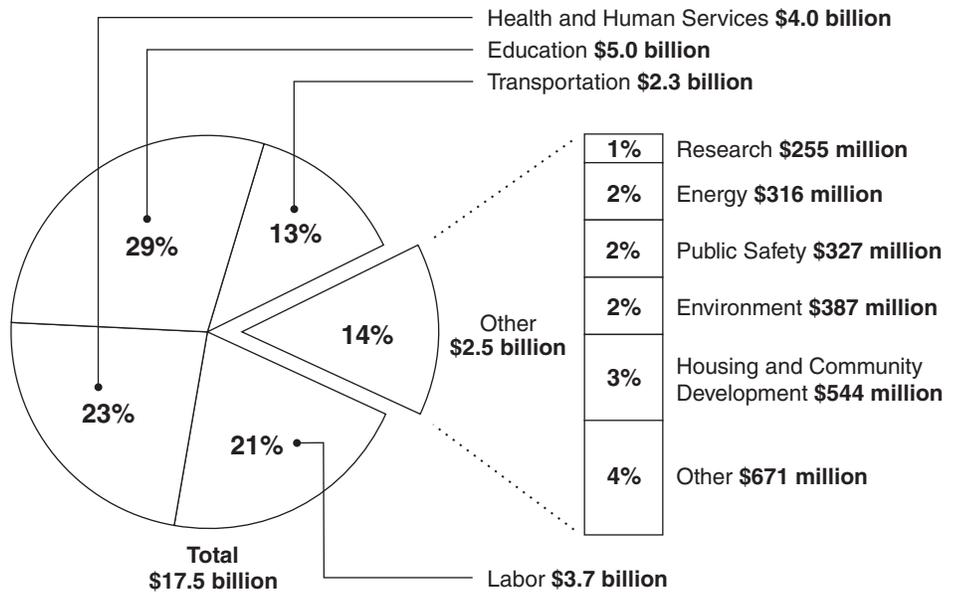
The State Comptroller's Office reports that approximately \$17.5 billion in Recovery Act funds have been awarded to Texas state entities, as of March 28, 2010.<sup>51</sup> The State Comptroller's Office classifies Recovery Act funding awarded to state entities into 10 categories. Each category includes multiple Recovery Act programs; for example, the housing and community development category includes the Weatherization Assistance Program as well as four other programs. As shown in figure 1, four categories—Health and Human Services, Education, Transportation, and Labor—account for about 86 percent or \$15 billion of the \$17.5 billion awarded to Texas state entities.

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<sup>50</sup>The term "state entities" refers to state agencies and public institutions of higher education. According to the State Comptroller's staff, in this context the term "spent" means monies that have been sent to contractors and subrecipients, including "pass through" funding sent by a state entity to another state entity. The State Comptroller's staff also indicated the term "awarded" here means an agreement exists between a state and a federal entity to provide Recovery Act funds to the state entity.

<sup>51</sup>In addition to the \$17.5 billion, Texas state entities reported applying for approximately \$1.94 billion in Recovery Act competitive grants. As of March 28, 2010, Texas state entities had not been awarded these grants.

**Figure 1: Recovery Act Funding Awarded to Texas State Agencies and Public Institutions of Higher Education by Category (as of March 28, 2010)**



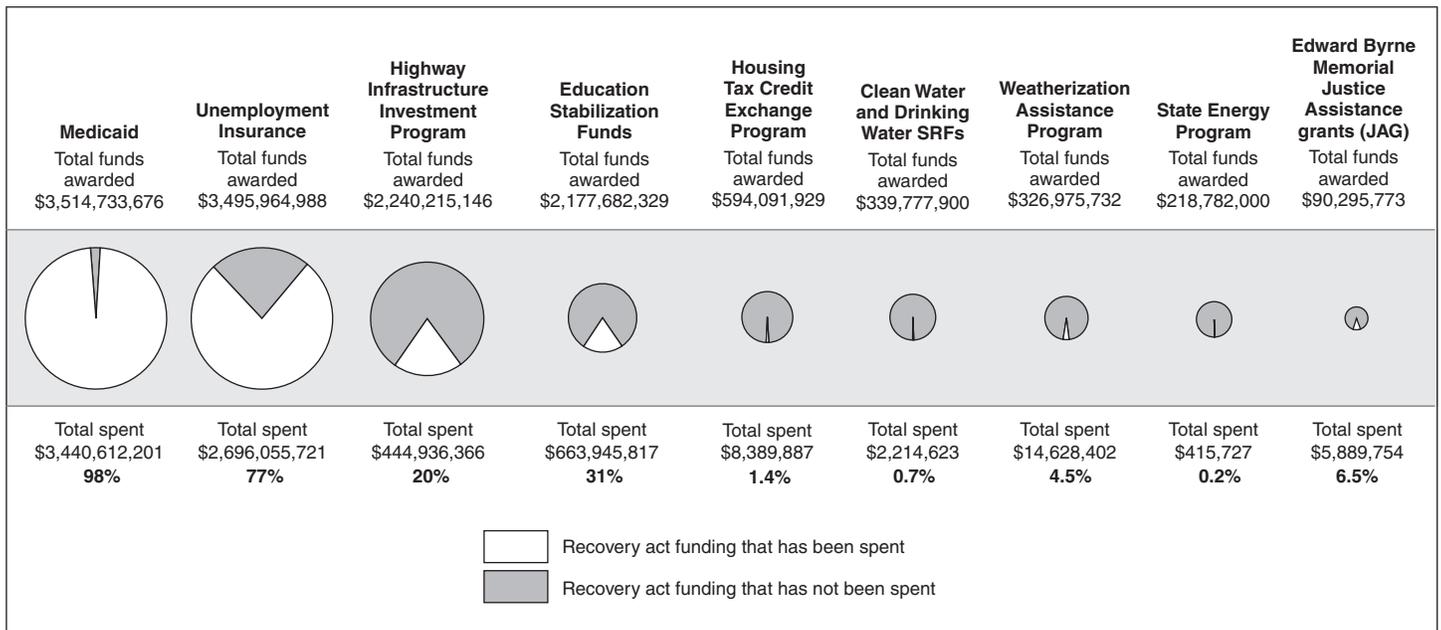
Source: State Comptroller's Office.

Notes: As reported by the State Comptroller's Office, the funding categories are based on the Catalogue of Federal Domestic Assistance, a governmentwide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public. According to the State Comptroller's Office, the funding information summarized in the figure does not reflect Recovery Act funding for local Texas governments and other non-state entities. For example, public housing agencies receive funds directly from the U.S. Department of Housing and Urban Development.

Of the \$17.5 billion in Recovery Act funds, the State Comptroller's Office reported that approximately \$8.3 billion (or 48 percent) have been spent, as of March 28, 2010. The Governor's office told us the state is neither accelerating nor decelerating the use of Recovery Act funds; rather, state entities determine how to utilize Recovery Act funds.

Figure 2 shows funds awarded and funds spent in nine programs that account for nearly \$13 billion (or about 74 percent) of the total amount of Recovery Act funding (\$17.5 billion) awarded to Texas state entities. As of March 28, 2010, the percentage of funds spent in these nine programs varied significantly.

**Figure 2: Recovery Act Funding Available and Spent in Nine Selected Programs in Texas (as of March 28, 2010)**



Source: State Comptroller's Office.

Officials characterized the two programs with the highest spend-out rates of Recovery Act funding as entitlement programs. For example, the Texas Health and Human Services Commission explained that Medicaid pays for health care services provided to eligible clients. The Texas Workforce Commission provided a similar explanation for unemployment insurance payments, characterizing these as entitlement payments to eligible claimants.<sup>52</sup> The Governor's staff explained program specific characteristics make spend out rates appear much higher for the two entitlement programs shown on figure 2 than the other programs shown on the figure. They indicated the amount of funding awarded to Texas for these programs could increase in the future, depending on demand for these programs. The Governor's staff as well as agency officials reiterated

<sup>52</sup>We have not reviewed unemployment insurance as part of our bimonthly reports on the Recovery Act. However in July 2009, we issued a report addressing this topic. See GAO, *Unemployment Insurance Measures Included in the American Recovery and Reinvestment Act of 2009*, [GAO-09-942R](#) (Washington, D.C.: July 27, 2009).

that Texas will continue to fund such programs as Medicaid.<sup>53</sup> For infrastructure-related programs, spend-out rates are determined partly by the work and timelines of contractors. Regarding the Highway Infrastructure Investment program, for example, the Texas Department of Transportation explained that contractors are paid based on the progress of projects.

We also asked the nine state agencies to describe their plans or exit strategies regarding the end of Recovery Act funding. As noted in our previous bimonthly reports, the Texas governor and legislature have advised state agencies that Recovery Act funding is temporary. In his proclamation concerning the state's budget for the 2010-2011 biennium, the governor stressed that "state agencies and organizations receiving these funds should not expect them to be renewed by the state in the next biennium." The biennium will end on August 31, 2011. The state agencies we examined responded that they are taking various actions. For example, the Texas Education Agency, which is responsible for education stabilization funds, reported that it has advised local educational agencies that Recovery Act funds should be "invested in ways that do not result in unsustainable continuing commitments after the funding expires."<sup>54</sup> In another case, the Office of the Governor's Criminal Justice Division reported to us that each recipient of Justice Assistance grants must acknowledge that "awards under the Recovery Act are one-time awards and that its proposed projects and deliverables are to be accomplished without additional funds." Other agencies expect to continue programs and activities. The Health and Human Services Commission reported that Texas will continue to fund the Medicaid program. Also, as part of its normal program, the Texas Department of Transportation noted that it planned to continue working on transportation projects that have been supported by the infusion of Recovery Act funds. The Governor's staff noted these two programs existed before the Recovery Act and received supplemental funding through the Recovery Act.

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<sup>53</sup>As GAO has previously reported, Medicaid programs generally represent an entitlement under which the federal government is obligated to pay its share of expenditures for covered services provided to eligible individuals under each state's federally approved Medicaid plan.

<sup>54</sup>Education stabilization funds are part of the State Fiscal Stabilization Fund, which also includes government services funds used for public safety and other government services.

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Texas Local Governments’  
Use of Recovery Act Funds

We assessed the use of Recovery Act funding for three local governments in Texas—the cities of Austin, Dallas, and Houston. Table 1 provides information about the three localities and identifies their largest Recovery Act awards. Officials in the three cities we visited cited various positive effects that Recovery Act funds are expected to have on their communities. Austin officials noted that Recovery Act funds will help reduce the city’s energy demand and greenhouse gas emissions, which supports the city’s commitment to being a leader in sustainability and green infrastructure. They said the Recovery Act funding enabled them to move projects forward, such as the Hornsby Bend Biosolids Management Plant clean water project. The city of Austin is also receiving a grant, Communities Putting Prevention to Work, from the Department of Health and Human Services that focuses on decreasing tobacco use.

As table 2 shows, the largest Recovery Act award to the city of Dallas is a \$23 million Transportation Investment Generating Economic Recovery (TIGER) competitive grant from the Department of Transportation. The TIGER grant is to be used to start work on a project for a proposed streetcar line in downtown Dallas to improve connectivity between jobs and residents. Dallas officials also commented that public safety is the city’s top priority and Recovery Act Community Oriented Policing Hiring Recovery Program (CHRP) funds helped the city hire 50 additional police officers. Houston officials noted Recovery Act grants would help expand curbside recycling and expand the city’s existing weatherization assistance program.

**Table 2: Use of Recovery Act Funds by Three City Governments in Texas**

Locality information		Programs providing the largest amounts of Recovery Act funding <sup>a</sup>
Austin	Type of local government	City • Clean Water State Revolving Fund (SRF)—(\$31.8 million)
	Population	757,193 • Communities Putting Prevention to Work—(\$7.5 million)
	Unemployment rate	7.0% • Energy Efficiency and Conservation Block Grant—(\$7.5 million)
	Operating budget	\$614.9 million • Highway Infrastructure Investment—(\$6.4 million)
	Total Recovery Act funds <sup>a</sup>	\$71.9 million • Weatherization Assistance Program—(\$5.8 million)
Dallas	Type of local government	City • Transportation Investment Generating Economic Recovery—(\$23 million)
	Population	1,279,910 • Weatherization Assistance Program—(\$13.2 million)
	Unemployment rate	9.2% • Energy Efficiency and Conservation Block Grant—(\$12.8 million)
	Operating budget	\$2 billion • Community Oriented Policing Hiring Recovery Program (CHRP)—(\$8.9 million)
	Total Recovery Act funds <sup>a</sup>	\$82.0 million • Edward Byrne Memorial Justice Assistance Grant—(\$7.1 million)
Houston	Type of local government	City • Weatherization Assistance Program—(\$23.4 million)
	Population	2,242,193 • Energy Efficiency and Conservation Block Grant—(\$22.8 million)
	Unemployment rate	8.4% • Highway Infrastructure Investment—(\$14.5 million)
	Operating budget	\$1.67 billion (before debt service) • Homeless Prevention and Rapid Re-Housing Program—(\$12.4 million)
	Total Recovery Act funds <sup>a</sup>	\$104.6 million • Community Development Block Grant—(\$8.1 million)

Source: GAO analysis of data obtained from City of Austin; City of Dallas; City of Houston; U.S. Census Bureau; and U.S. Department of Labor, Bureau of Labor Statistics (local area unemployment statistics).

Note: City population data are from the latest available estimate, July 1, 2008. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

<sup>a</sup>Officials in each city (Austin, Dallas, and Houston) said that they are awaiting decisions on applications for additional Recovery Act funds.

The three local governments said they are facing growing budgetary challenges as they are awarded Recovery Act funding. In 2009, the Federal Reserve Bank of Dallas reported that the recession affected Texas later than other areas of the nation.<sup>55</sup> The report noted that “the Texas economy continued to expand while the nation fell into a recession.” However, in the latter part of 2008, the state’s economic conditions deteriorated, and the Federal Reserve Bank determined that Texas began 2009 in recession.

<sup>55</sup>Federal Reserve Bank of Dallas, “Recession Arrives in Texas: A Rougher Ride in 2009,” in *Southwest Economy* (First Quarter 2009), 3.

In 2010, the Federal Reserve Bank reported the state's economy is improving but also noted that "consumer spending—which makes up the lion's share of Texas' economy—remains flat and may continue to constrain growth."<sup>56</sup> The local officials we spoke with confirmed their governments are experiencing the effects of the recession, pointing to figures showing declines in sales tax revenue. For example, according to Houston's estimate for the city's 2010 budget, sales tax revenue is expected to decrease more than 8 percent. Furthermore, officials in all three cities said that budget reductions continue to be made in response to declining revenues, such as implementing hiring freezes, eliminating raises, and reducing library hours.

City government officials commented that while helpful to furthering specific efforts, Recovery Act funds had a limited overall budgetary impact. The officials attributed the limited impact of Recovery Act funding to several factors. Specifically, the officials noted that Recovery Act funding is directed to programs outside a city's general fund and is going toward projects with one-time expenses. Further, the officials commented that the amounts of Recovery Act funds awarded are relatively small compared to the respective city's overall budget. For example, as shown in table 2, Houston was awarded approximately \$104.6 million in Recovery Act funding but has an operating budget of approximately \$1.67 billion. City government officials in Austin, Dallas, and Houston also noted instances in which their respective city did not receive Recovery Act funding that the city had sought. For example, Houston officials discussed several grant applications that were not selected, such as the CHRP, TIGER, and the Clean Water and Drinking Water SRFs. In summary, while identifying factors that limit the overall impact of Recovery Act funds on local budgets, officials from all three cities clearly indicated that the federal funds would have positive effects for their communities.

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<sup>56</sup>Federal Reserve Bank of Texas, "Texas Economy Shakes Off Rough Ride in 2009," in *Southwest Economy* (First Quarter 2010), 6.

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## State and Local Government Efforts in Accountability for Recovery Act Funds in Texas

Texas state entities and the local governments we reviewed in Texas are taking actions to help ensure Recovery Act funds are used appropriately. The Texas State Auditor's Office (SAO) continues to review jobs and expenditure reporting under the Recovery Act. Also, SAO recently completed the Single Audit in a timelier manner than is required by federal law, thereby providing early written communication of internal control deficiencies. As described previously, state agencies continue oversight and monitoring efforts to ensure accountability for use of Recovery Act funds. The local governments we reviewed in Texas are also taking actions to monitor Recovery Act funding, including early identification of risks related to the Recovery Act.

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## State Auditor's Office Has a Significant Accountability Role

In reference to Texas's use of Recovery Act funds, SAO has completed one performance audit and has another performance audit ongoing. In March 2010, SAO released an audit reviewing jobs and expenditure reporting in two programs overseen by the Texas Education Agency (TEA), ESEA Title I and Individuals with Disabilities Education Act (IDEA).<sup>57</sup> The audit found TEA established an adequate process to ensure program expenditures and job creation information self-reported by local educational agencies was collected and included in the recipient reports required in September 2009.<sup>58</sup> However, audit findings point to the importance of continuing monitoring activities. The two local educational agencies the auditors visited incorrectly reported the number of jobs by 45 percent and 6 percent, respectively.<sup>59</sup> The auditors explained that one local educational agency did not follow TEA guidance and another used an informal process

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<sup>57</sup>Texas State Auditor's Office, *American Recovery and Reinvestment Act Funds for Selected Programs at the Texas Education Agency*, SAO Report No. 10-024 (Austin, Tex.: March 2010).

<sup>58</sup>The audit report did, however, describe challenges TEA faced in developing guidance. The auditors found that TEA—from September 25, 2009, to October 1, 2009—provided inconsistent methodology for local educational agencies to use in reporting jobs. Specifically, one guidance document advised local educational agencies to calculate a baseline of the number of hours that would have been worked in the absence of Recovery Act funds, a point not mentioned in two other guidance documents. TEA and the auditors disagree on whether this was a substantial shift. However, both TEA as well as the auditors pointed to challenges resulting from federal guidance. Specifically, the audit report notes, "the U.S. Department of Education released its guidance on or about September 21, 2009. This left TEA staff just a few working days to assimilate this information, disseminate it internally, and provide it to more than 1,200 local educational agencies."

<sup>59</sup>The auditors visited the Pasadena Independent School District and the Alvin Independent School District.

of emails and verbal exchanges.<sup>60</sup> SAO also recommended TEA monitor and follow up with local educational agencies to facilitate the regular and timely draw down of Recovery Act funds to ensure all Recovery Act funds are obligated by September 30, 2011, as required by state and federal law. TEA agreed with the recommendation and reported taking a number of actions, including monitoring of local educational agencies' draw down of funds, reaching out to districts with low or no draw downs, and publicizing draw down information on the agency's Web site. The Governor's staff told us TEA does not have legal authority to require local educational agencies to spend Recovery Act funding more quickly.

Going forward, a senior official in SAO reported the office is now reviewing jobs and expenditure reporting for the Workforce Investment Act of 1998 (WIA) Programs, including Youth, Adult, and Dislocated Worker. The official said that SAO expects to release a report in summer 2010.

Recently, the auditor for the state of Texas issued the Single Audit report significantly earlier than required by federal law and, also provided earlier written communication of internal control deficiencies over compliance for state entities.<sup>61</sup> SAO, on February 22, 2010, issued the federal portion of the Statewide Single Audit Report for Texas's 2009 fiscal year.<sup>62</sup> SAO issued the report less than 6 months after Texas's fiscal year ended on

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<sup>60</sup>The Pasadena Independent School District did not follow TEA guidance that the number of jobs should be calculated as full-time equivalents by dividing the number of funded hours into the total number of hours in a full-time schedule.

<sup>61</sup>Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires, states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

<sup>62</sup>The federal audit clearinghouse received this report on March 26, 2010. The federal audit clearinghouse operates on behalf of the Office of Management and Budget to disseminate audit information to federal agencies and the public. The Single Audit requires grantees to submit a financial reporting package, including the financial statements and the Single Audit report, to the clearinghouse no later than 9 months after the end of the grantee's fiscal year under audit.

August 31, 2009.<sup>63</sup> Texas's efforts are noteworthy in demonstrating that the Single Audit can be completed in less time than the requisite 9 months and can provide early warnings of deficiencies in internal control over compliance as state entities expend Recovery Act funds. In regards to timing, we recommended starting in April 2009 in our bimonthly reports that the federal Office of Management and Budget (OMB) adjust the current audit process to, among other things, provide for review of internal controls before significant Recovery Act expenditures occurred.<sup>64</sup> We noted that the statutory deadline to complete the Single Audit and submit a state's financial reporting package to the federal audit clearinghouse—specifically 9 months after an entity's fiscal year ends—is too late to allow the audited entity to take corrective action on internal control deficiencies before significant expenditures of Recovery Act funds. Moreover, the timing problem had been exacerbated by extensions to the 9-month deadline—extensions that have been routinely granted in past years. For example, seven states in our review of Recovery Act funds completed their fiscal year on July 1, 2008, but requested and received extensions to submit their Single Audit financial reporting packages after March 31, 2009. While OMB has recently issued guidance on March 22, 2010, which states that extensions should no longer be granted, Texas demonstrated that the Single Audit can be completed in less time than the requisite 9 months. A senior SAO official told us that Texas had been issuing its Single Audit report within 6 months of the end of its fiscal year even before the Recovery Act.<sup>65</sup> The official explained that the Single Audit work is done concurrently with completing the state's financial statements.<sup>66</sup>

We asked the SAO senior official to identify key factors that, in her view, facilitated Texas's completion of the Single Audit work as well as work on

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<sup>63</sup>Texas budgets on a biennial basis, which consists of 2 fiscal years. Each fiscal year is September 1 through August 31 and is specified by the ending calendar year. For example, fiscal year 2009 was September 2008 through August 2009. The biennium for budget purposes runs 2 years. For example, the 2010-2011 biennium is September 1, 2009 through August 31, 2011.

<sup>64</sup>GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: April 23, 2009), 53-54.

<sup>65</sup>For example, the Texas State Auditor issued the Statewide Single Audit Report for fiscal year 2008 on February 20, 2009.

<sup>66</sup>The SAO official said a Texas statute requires the state's financial statements to be completed within 6 months of the end of the fiscal year.

the financial statements. The senior official identified two important factors:

- The State of Texas is investing significant audit resources. For the fiscal year 2009 audit, 114 members of SAO's approximately 180 audit staff worked on the audit. Moreover, SAO billed state agencies and institutions of higher education approximately \$5.6 million for its work on the fiscal year 2009 audit, including financial opinion work as well as federal compliance work.<sup>67</sup> In addition, SAO anticipates using its own funds to pay some of the costs.
- The State of Texas has supplemented its efforts with assistance from a public accounting firm, which is essential for providing the personnel needed and a national perspective. Moreover, contracting with the public accounting firm allows SAO to do more performance audits while still fully participating in the Single Audit, which is an important role of SAO.

Texas volunteered to participate in a project that OMB sponsored. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken.<sup>68</sup> In our December 2009 national summary of the Recovery Act, we commended the states, including Texas, that elected to participate in the project.<sup>69</sup> We asked the SAO official how Texas's participation in this project may have facilitated the state's completion of the Single Audit report. As noted previously, the SAO official explained the Single Audit work is done concurrently with completing the state's financial statements, which must be completed within 6 months of the end of the fiscal year. Texas had been issuing its Single Audit report by this time frame, before the Recovery Act and OMB's project. The SAO official told us, however, that Texas wanted to

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<sup>67</sup>The SAO official noted that the State Auditor's Office can bill state agencies and institutions of higher education for the cost of the audit.

<sup>68</sup>OMB implemented a Single Audit Internal Control Project (project) in October 2009. The project is a collaborative effort among the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits. Sixteen states, including Texas, volunteered for the project.

<sup>69</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, [GAO-10-231](#) (Washington, D.C.: December 10, 2009).

participate in the project to demonstrate its interest in accountability for federal funds as well as Recovery Act funds. On the project, SAO would like OMB to consider allowing for additional flexibility in the conduct of the work.

Texas's Single Audit report also provided early warning of potential risks to state entities as Recovery Act funds are disbursed. A SAO senior official noted the Single Audit identified a weakness in determining eligibility for three programs—Medicaid, Temporary Assistance for Needy Families, and Supplementary Nutrition Assistance Program. Texas has been awarded \$3.51 billion in Recovery Act funding for Medicaid, \$57.5 million for Temporary Assistance for Needy Families, and \$27.8 million for the Supplementary Nutrition Assistance Program, according to March 28, 2010, data from the State Comptroller's Office. The SAO official noted that challenges in determining program eligibility existed before the Recovery Act, as the state transitioned between computer systems. Federal Inspector General officials—in reviewing Texas's Single Audit report—characterized the eligibility-determination issue as a “material weakness, a material instance of non-compliance, as well as a repeat finding.” The Texas Health and Human Services Commission reported it intends to finalize a corrective action plan by May 31, 2010, including evaluating methods to monitor documentation used to support eligibility for the three programs identified above. Also, the Governor's staff reported that the Texas Health and Human Services Commission is taking additional actions, including modifying the eligibility system to ensure key documents are verified and maintained as well as developing a management plan to improve the accuracy of eligibility determinations. The Governor's staff indicated that many of these actions are to be completed by the end of calendar year 2010.

Further, we asked the SAO official to what extent the Single Audit had identified new risks related to the Recovery Act. One risk SAO expects will be addressed is the requirement that recipients, such as state agencies and subrecipients, register with the federal government's Central Contractor Registration (CCR), which is intended to provide basic information relevant to procurement and financial transactions. The Single Audit found, for example, that one state agency was unaware of this requirement and consequently did not verify food bank subrecipients had registered before providing Recovery Act funds.<sup>70</sup> The SAO senior official expected

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<sup>70</sup>According to the Single Audit report, the Texas Department of Agriculture subsequently notified all food banks and had them register with CCR by September 30, 2009.

this risk to lessen as state agencies become more familiar with requirements. Consequently, Texas's timely completion of the Single Audit provides the state an opportunity to address and mitigate potential risks. As noted previously, Texas has not yet spent the majority of the Recovery Act funds awarded to state entities, as of March 28, 2010.<sup>71</sup>

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### Local Government Audit Offices Also Have a Significant Accountability Role

The local governments we reviewed also reported taking steps to safeguard Recovery Act funds. We previously reported the Dallas city auditor did a preliminary risk assessment before the city received significant amounts of Recovery Act funding. In an October 2009 report, the auditor noted the city faces increased risks because Recovery Act funds must be expended quickly, mandatory reports must be completed within short time frames, and some city departments have not previously administered grants. The auditor made a number of specific recommendations, which city management has said will be implemented. The city auditor has continued to monitor Recovery Act funding and is planning to issue reports every quarter assessing the city's efforts.<sup>72</sup> On April 23, 2010, the city auditor released one such quarterly audit report.<sup>73</sup> Of particular importance, the report noted that no "allegations of fraud, waste, and abuse" have been received by the city auditor's office.

In March 2010, a representative from the Austin city auditor's office told us that the office is planning a two-pronged approach to monitoring Recovery Act funds. The approach, according to the city auditor's office representative, focuses on (1) ensuring that departments understand the specific requirements of the Recovery Act and (2) conducting tests of specific Recovery Act projects for compliance with requirements.

Also, in April 2010, the Houston acting city auditor told us that the city is taking various actions to ensure accountability for Recovery Act funds. These actions include, for example, conducting an enterprise risk assessment to comprehensively identify risks the city's various

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<sup>71</sup>As noted previously, the State Comptroller's staff told us "spent" means monies that have been sent to contractors and subrecipients, including "pass through" funding sent by a state entity to another state entity.

<sup>72</sup>The timing of the audit reports are to be based on recipient reporting required by the Recovery Act.

<sup>73</sup>Dallas City Auditor, *Audit of American Recovery and Reinvestment Act of 2009: January 1, 2010 to March 31, 2010* (Dallas, Tex.: April 23, 2010).

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departments face. The acting city auditor noted that he had contacted counterparts in the Dallas city auditor's office to discuss risk-assessment approaches. Also, the Houston acting city auditor commented that the Single Audit is expected to provide specific coverage of Recovery Act funds. Further, to address the Recovery Act's reporting requirements, the acting city auditor said that the city has formed a committee with representation from city management and the City Controller's Audit Division.

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## Texas's Comments on This Summary

We provided the Governor of Texas with a draft of this appendix on May 5, 2010. A senior official (the Director of Financial Accountability) in the Office of the Governor responded on May 10, 2010. The majority of the senior official's comments relate to WAP. Generally, the senior official commented that the draft appendix did not adequately reflect Texas's view that the significant delays in the state's weatherization efforts were principally the result of DOE actions and decisions. More specifically, the senior official commented that DOE (1) denied the state's request to significantly expand the network of weatherization providers, (2) did not provide the state with required Davis-Bacon wage information for major metropolitan areas for nearly a year after passage of the Recovery Act, (3) changed reporting requirements significantly and failed to timely provide written guidance, and (4) has yet to provide multifamily weatherization training to Texas after numerous requests. To address these comments, we incorporated more specific information on Texas's efforts to work with DOE as well as DOE's perspectives on the state's progress in weatherizing units. For example, we incorporated information that according to Texas officials DOE denied the state's request to expand the network of weatherization providers. However, we also incorporated information that in April 2010 DOE reported that it had not been pleased with the state's progress in implementing the Recovery Act WAP and had constant communication and several meetings with TDHCA staff in efforts to provide additional assistance and accelerate progress. As appropriate in this appendix, we also incorporated the senior official's suggestions for technical clarifications regarding WAP and other relevant programs and activities.

In addition, we also provided a copy of applicable sections of a draft of this appendix to the City of Austin, the City of Dallas, and the City of Houston. Officials from the respective cities generally agreed with the information presented and provided technical suggestions that we incorporated where appropriate.

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**Staff  
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# Appendix XVIII: Program Descriptions

Following are descriptions of selected Recovery Act grant programs. The table below provides a list of the federal agency or office administering selected grant programs.

**Table 1: Selected Grant Programs and Their Administering Federal Agency or Office**

<b>Federal agency</b>	<b>Agency office</b>	<b>Grant program or programs administered</b>
<b>Department of Agriculture</b>	Food and Nutrition Service	<ul style="list-style-type: none"> <li>Supplemental Nutrition Assistance Program</li> </ul>
	Forest Service	<ul style="list-style-type: none"> <li>Wildland Fire Management Program</li> </ul>
<b>Department of Commerce</b>	National Telecommunications and Information Administration	<ul style="list-style-type: none"> <li>State Broadband Data and Development Program</li> </ul>
<b>Department of Education</b>	Office of Elementary and Secondary Education	<ul style="list-style-type: none"> <li>Elementary and Secondary Education Act of 1965, as amended Title I, Part A grants</li> <li>State Fiscal Stabilization Fund</li> <li>Race to the Top Fund</li> </ul>
	Office of Special Education and Rehabilitative Services	<ul style="list-style-type: none"> <li>Individuals with Disabilities Education Act Part B and C grants</li> </ul>
<b>Department of Energy</b>	Office of Electricity Delivery and Energy Reliability	<ul style="list-style-type: none"> <li>Renewable and Distributed Systems Integration</li> <li>Smart Grid Investment Grant Program</li> </ul>
	Office of Energy Efficiency and Renewable Energy	<ul style="list-style-type: none"> <li>Clean Cities Program</li> <li>Energy Efficiency and Conservation Block Grants</li> <li>State Energy Program</li> <li>Weatherization Assistance Program</li> </ul>
<b>Department of Health and Human Services</b>	Administration for Children and Families	<ul style="list-style-type: none"> <li>Child Care and Development Block Grants</li> <li>Community Services Block Grants</li> <li>Head Start/Early Start</li> <li>Recovery Act Impact on Child Support Incentives</li> <li>Title IV-E Adoption Assistance and Foster Care Programs</li> </ul>
	The Centers for Disease Control and Prevention	<ul style="list-style-type: none"> <li>Communities Putting Prevention to Work</li> </ul>
	The Centers for Medicare and Medicaid Services	<ul style="list-style-type: none"> <li>Medicaid Federal Medical Assistance Percentage</li> </ul>
	Health Resources and Services Administration	<ul style="list-style-type: none"> <li>Capital Improvement Program</li> <li>Increased Demand for Services</li> </ul>
	Office of the National Coordinator for Health Information Technology	<ul style="list-style-type: none"> <li>Health Information Technology Extension Program</li> <li>State Health Information Exchange Cooperative Agreement Program</li> </ul>

**Appendix XVIII: Program Descriptions**

<b>Federal agency</b>	<b>Agency office</b>	<b>Grant program or programs administered</b>
<b>Department of Homeland Security</b>	Federal Emergency Management Agency	<ul style="list-style-type: none"> <li>• Emergency Food and Shelter Program</li> <li>• Port Security Grant Program</li> <li>• Recovery Act Assistance to Firefighters Fire Station Construction Grants</li> <li>• Staffing for Adequate Fire and Emergency Response</li> </ul>
<b>Department of Housing and Urban Development</b>	Office of Community Planning and Development	<ul style="list-style-type: none"> <li>• Community Development Block Grants</li> <li>• Homelessness Prevention and Rapid Re-Housing Program</li> <li>• Neighborhood Stabilization Program 2</li> </ul>
	Office of Public and Indian Housing	<ul style="list-style-type: none"> <li>• Public Housing Capital Fund</li> </ul>
<b>Department of Justice</b>	Office of Community Oriented Policing Services	<ul style="list-style-type: none"> <li>• Community Oriented Policing Services Hiring Recovery Program</li> </ul>
	Office of Justice Programs	<ul style="list-style-type: none"> <li>• Assistance to Rural Law Enforcement to Combat Crime and Drugs Program</li> <li>• Edward Byrne Memorial Justice Assistance Grant Program</li> <li>• Internet Crimes Against Children Initiatives</li> </ul>
	Office on Violence Against Women	<ul style="list-style-type: none"> <li>• Services*Training*Officers*Prosecutors Violence Against Women Formula Grants</li> </ul>
<b>Department of Labor</b>	Employment and Training Administration	<ul style="list-style-type: none"> <li>• Senior Community Service Employment Program</li> <li>• Workforce Investment Act of 1998 Title I-B Grants</li> </ul>
<b>Department of Transportation</b>	Federal Aviation Administration	<ul style="list-style-type: none"> <li>• Airport Improvement Program</li> </ul>
	Federal Highway Administration	<ul style="list-style-type: none"> <li>• Federal-Aid Highway Surface Transportation Program</li> <li>• Transportation Enhancement Program</li> </ul>
	Federal Railroad Administration	<ul style="list-style-type: none"> <li>• High-Speed Intercity Passenger Rail Program</li> </ul>
	Federal Transit Administration	<ul style="list-style-type: none"> <li>• Fixed Guideway Infrastructure Investment Program</li> <li>• Transit Capital Assistance Program</li> <li>• Transit Investments for Greenhouse Gas and Energy Reduction Grant Program</li> </ul>
	Office of the Secretary	<ul style="list-style-type: none"> <li>• Transportation Investment Generating Economic Recovery Discretionary Grants Employment</li> </ul>
<b>Environmental Protection Agency</b>	Office of Air and Radiation	<ul style="list-style-type: none"> <li>• Diesel Emission Reduction Act Grants</li> </ul>
	Office of Solid Waste and Emergency Response	<ul style="list-style-type: none"> <li>• Brownfields Program</li> </ul>
	Office of Water	<ul style="list-style-type: none"> <li>• Clean Water State Revolving Fund</li> <li>• Drinking Water State Revolving Fund</li> </ul>
<b>National Endowment for the Arts</b>		<ul style="list-style-type: none"> <li>• National Endowment for the Arts Recovery Act grants</li> </ul>

Source: GAO.

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## Clean and Drinking Water State Revolving Funds

The Recovery Act appropriated \$4 billion for the Clean Water SRF programs and \$2 billion for the Drinking Water SRF programs. These amounts are a significant increase compared to federal funds awarded as annual appropriations to the SRF programs in recent years. From fiscal years 2000 through 2009, annual appropriations averaged about \$1.1 billion for the Clean Water SRF program and about \$833 million for the Drinking Water SRF program. The Environmental Protection Agency (EPA) distributed the Recovery Act funds to the 50 states, the District of Columbia, and Puerto Rico to make loans and grants to subrecipients—local governments and other entities awarded Recovery Act funds—for eligible wastewater and drinking water infrastructure projects and “nonpoint source” pollution projects intended to protect or improve water quality by, for example, controlling runoff from city streets and agricultural areas.<sup>1</sup> The Clean Water and Drinking Water SRF programs, established in 1987 and 1996 respectively, provide states and local communities independent and permanent sources of subsidized financial assistance, such as low or no-interest loans, for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations and protect public health.

In addition to providing increased funds, the Recovery Act included specific requirements for states beyond those that are part of base Clean Water and Drinking Water SRF programs. For example, states were required to have all Recovery Act funds awarded to projects under contract within 1-year of enactment—which was February 17, 2010<sup>2</sup>—and EPA was directed to reallocate any funds not under contract by that date.<sup>3</sup>

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<sup>1</sup>EPA allocated Recovery Act clean water SRF capitalization grants to states based on a statutory formula. The agency allocated Recovery Act drinking water SRF capitalization grants to states based on the 2003 Drinking Water Infrastructure Needs Survey. EPA allocates clean water and drinking water SRF funds to the District of Columbia and U.S. territories as direct grants for the same purposes.

<sup>2</sup>In this report we use the word “project” to mean an assistance agreement, i.e. a loan or grant agreement made by the state SRF program to a subrecipient for the purpose of a Recovery Act project.

<sup>3</sup>The Recovery Act requires states to have all funds awarded to projects “under contract or construction” by the 1-year deadline. EPA interprets this as requiring states to have all projects under contract in an amount equal to the full value of the Recovery Act assistance agreement by the deadline, regardless of whether construction has begun, according to a September 2009 memorandum. Thus, in this report, we use “under contract” when referring to this requirement. Further, according to EPA’s March 2, 2009 memorandum, the agency will deobligate any Recovery Act SRF funds that a state does not have awarded to projects under contract by the one year deadline and reallocate them to other states.

Further, states were required to use at least 50 percent of Recovery Act funds to provide assistance in the form of principal forgiveness, negative interest loans, or grants.<sup>4</sup> States were also required to use at least 20 percent of funds as a “green reserve” to provide assistance for green infrastructure projects, water or energy efficiency improvements, or other environmentally innovative activities.

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## Education

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### State Fiscal Stabilization Fund

The State Fiscal Stabilization Fund (SFSF) included approximately \$48.6 billion to award to states by formula and up to \$5 billion to award to states as competitive grants. The Recovery Act created the SFSF in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services, such as public safety. Stabilization funds for education distributed under the Recovery Act must first be used to alleviate shortfalls in state support for education to local educational agencies (LEAs) and public institutions of higher education (IHE). States must use 81.8 percent of their SFSF formula grant funds to support education (these funds are referred to as education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds). The SFSF funds are being provided to states in two phases. Phase 1 funds – at least 67 percent of education stabilization funds and all government services funds – were provided to each state after Education approved the state’s Phase 1 application for funds. Phase 2 funds are being awarded to states as Education approves each state’s Phase 2 application. The Phase 1 application required each state to provide several assurances, including that the state will meet maintenance-of-effort requirements (or will be able to comply with the relevant waiver provisions); will meet requirements for accountability, transparency, reporting, and compliance with certain federal laws and regulations; and that it will implement strategies to

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<sup>4</sup>Under the base Drinking Water SRF, Congress has authorized states to use an amount equal to up to 30 percent of their capitalization grant to provide additional subsidies to communities that meet state-defined criteria for being “disadvantaged.” There is no such statutory authorization for the Clean Water SRF program.

advance four core areas of education reform.<sup>5</sup> The Phase 2 application requires each state to explain the information the state makes available to the public related to the four core areas of education reform or provide plans for making information related to the education reforms publicly available no later than September 30, 2011. States must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to LEAs and public IHEs. When distributing these funds to LEAs, states must use their primary education funding formula, but they can determine how to allocate funds to public IHEs. In general, LEAs maintain broad discretion in how they can use education stabilization funds, but states have some ability to direct IHEs in how to use these funds.

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## ESEA Title I, Part A

The Recovery Act provides \$10 billion to help LEAs educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA).<sup>6</sup> These additional funds are distributed through states to LEAs using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, LEAs are required to comply with applicable statutory and regulatory requirements and must obligate 85 percent of the funds by September 30, 2010.<sup>7</sup> Education is advising LEAs to use the funds in ways that will build the agencies' long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers. The Recovery Act also appropriated \$3 billion for ESEA Title I School Improvement Grants (SIG), which provides funds to states for use in ESEA Title I

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<sup>5</sup>The four core areas of education reform, as described by Education, are: (1) increase teacher effectiveness and address inequities in the distribution of highly qualified teachers; (2) establish a pre-K-through-college data system to track student progress and foster improvement, (3) make progress toward rigorous college- and career-ready standards and high-quality assessments that are valid and reliable for all students, including students with limited English proficiency and students with disabilities; and (4) provide targeted, intensive support and effective interventions to turn around schools identified for corrective action or restructuring.

<sup>6</sup>For the purposes of this report, "Title I" refers to Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended.

<sup>7</sup>LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and must obligate all of their funds by September 30, 2011. This will be referred to as a carryover limitation.

schools identified for improvement<sup>8</sup> in order to substantially raise the achievement of their students.<sup>9</sup> These funds are awarded by formula to states, which will then make competitive grants to LEAs. State applications for the \$3 billion in Recovery Act SIG funding as well as an additional \$546 million in regular fiscal year 2009 SIG funding were due to the Department of Education on February 28, 2010. SIG regulatory requirements effective in February 2010,<sup>10</sup> prioritize the use of SIG funds in each state's persistently lowest-achieving Title I schools.<sup>11</sup>

To receive funds, states must identify their persistently lowest-achieving schools, and an LEA that wishes to receive SIG funds must submit an application to its SEA identifying which schools it commits to serve and how it will use school improvement funds to implement one of four school intervention models: (1) turnaround model, which includes replacing the principal and rehiring no more than 50 percent of the school's staff; (2) restart model, in which an LEA converts the school or closes and reopens it as a charter school or under an education management organization; (3) school closure, in which an LEA closes the school and enrolls the students who attended the school in other, higher-achieving schools in the LEA; or (4) the transformation model, which addresses four specific areas intended to improve schools.

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## IDEA, Part B

The Recovery Act provided supplemental funding for programs authorized by Part B and C of the Individuals with Disabilities Education Act (IDEA) as amended, the major federal statute that supports early intervention and special education and related services for children, and youth with disabilities. Part B funds programs that ensure preschool and school-aged children with disabilities access to a free and appropriate public education and is divided into two separate grants—Part B grants to states (for

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<sup>8</sup>Under ESEA, schools in improvement have failed to meet adequate yearly progress for at least two consecutive years.

<sup>9</sup>School Improvement Grants are authorized under Section 1003(g) of ESEA.

<sup>10</sup>Final requirements for SIG were published in Dec. 2009 (74 Fed. Reg. 65618 (Dec. 10, 2009)), and were amended by interim final requirements published in Jan. 2010 (75 Fed. Reg. 3375 (Jan. 21, 2010)).

<sup>11</sup>To identify the persistently lowest-achieving schools in the state, a state educational agency must take into account both performance of all students in a school on the state's assessments in reading/language arts and mathematics combined; and the lack of progress by all students on those assessments over a number of years.

school-age children) and Part B preschool grants. Part C funds programs that provide early intervention and related services for infants and toddlers with disabilities—or at risk of developing a disability—and their families.

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## Emergency Food and Shelter Program

The Emergency Food and Shelter Program (EFSP), which is administered by the Federal Emergency Management Agency (FEMA) within the Department of Homeland Security (DHS), was authorized in July 1987 by the Stewart B. McKinney Homeless Assistance Act to provide food, shelter and supportive services to the homeless.<sup>12</sup> The program is governed by a National Board composed of a representative from FEMA and six statutorily designated national nonprofit organizations.<sup>13</sup> Since its first appropriation in fiscal year 1983, EFSP has awarded over \$3.4 billion in federal aid to more than 12,000 local private, non-profit and government human service entities in more than 2,500 communities nationwide.

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## Head Start/Early Head Start

The Head Start program, administered by the Office of Head Start of the Administration for Children and Families within the Department of Health and Human Services, provides comprehensive early childhood development services to low-income children, including educational, health, nutritional, social, and other services, intended to promote the school readiness of low-income children. Federal Head Start funds are provided directly to local grantees, rather than through states. The Recovery Act provided an additional \$2.1 billion in funding for Head Start and Early Head Start programs. The Early Head Start program provides family-centered services to low-income families with very young children designed to promote the development of the children, and to enable their parents to fulfill their roles as parents and to move toward self-sufficiency.

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<sup>12</sup>Pub. L. No. 100-77, 101 Stat. 482 (July 22, 1987).

<sup>13</sup>Under the Act, the members of the EFSP National Board are to be the Director of the Federal Emergency Management Agency, (Chair), and 6 members appointed by the Director from individuals nominated by the following organizations: American Red Cross, Catholic Charities USA, National Council of Churches of Christ in the USA, The Salvation Army, The Council of Jewish Federations, Inc., (now known as The Jewish Federations of North America), and the United Way of America (now known as United Way Worldwide).

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## Highway Infrastructure Investment Program

The Recovery Act provides funding to states for restoration, repair, and construction of highways and other activities allowed under the Federal Highway Administration's Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. Highway funds are apportioned to states through federal-aid highway program mechanisms, and states must follow existing program requirements. While the maximum federal fund share of highway infrastructure investment projects under the existing federal-aid highway program is generally 80 percent, under the Recovery Act, it is 100 percent.

Funds appropriated for highway infrastructure spending must be used in accordance with Recovery Act requirements. States were given a 1-year deadline (March 2, 2010) to ensure that all apportioned Recovery Act funds—including suballocated funds—were obligated.<sup>14</sup> The Secretary of Transportation was to withdraw and redistribute to eligible states any amount that was not obligated by that time.<sup>15</sup> Additionally, the governor of each state was required to certify that the state would maintain its level of spending for the types of transportation projects funded by the Recovery Act it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state was required to identify the amount of funds the state planned to expend from state sources from February 17, 2009, through September 30, 2010.<sup>16</sup>

On March 2, 2009, the Federal Highway Administration apportioned \$799.8 million in Recovery Act funds to states for its Transportation Enhancement program. States may use program funds for qualifying surface transportation activities, such as constructing or rehabilitating off-road shared use paths for bicycles and pedestrians; conducting landscaping and other beautification projects along highways, streets, and waterfronts; and rehabilitating and operating historic transportation

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<sup>14</sup>For the Highway Infrastructure Investment program, the U.S. Department of Transportation has interpreted the term "obligation of funds" to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

<sup>15</sup>Recovery Act, div. A, title XII, 123 Stat. 206.

<sup>16</sup>Recovery Act, div. A, title XII, § 1201(a).

facilities such as historic railroad depots.<sup>17</sup> The Recovery Act requires that 3 percent of Highway Infrastructure Investment funds provided to states must be used for Transportation Enhancement activities. Additionally, states may decide to use additional Recovery Act Transportation Enhancement funds, beyond the 3 percent requirement, for qualifying activities such as those mentioned above. States determine the share of federal funds used for qualifying Transportation Enhancement projects up to 100 percent of the projects' costs.

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## Public Transportation Program

The Recovery Act appropriated \$8.4 billion to fund public transit throughout the country through existing Federal Transit Administration (FTA) grant programs, including the Transit Capital Assistance Program, and the Fixed Guideway Infrastructure Investment Program. Under the Transit Capital Assistance Program's formula grant program, Recovery Act funds were apportioned to large and medium urbanized areas—which in some cases include a metropolitan area that spans multiple states—throughout the country according to existing program formulas. Recovery Act funds were also apportioned to states for small urbanized areas and nonurbanized areas under the Transit Capital Assistance Program's formula grant programs using the program's existing formula. Transit Capital Assistance Program funds may be used for such activities as vehicle replacements, facilities renovation or construction, preventive maintenance, and paratransit services. Recovery Act funds from the Fixed Guideway Infrastructure Investment Program<sup>18</sup> were apportioned by formula directly to qualifying urbanized areas, and funds may be used for any capital projects to maintain, modernize, or improve fixed guideway systems.<sup>19</sup> As they work through the state and regional transportation planning process, designated recipients of the apportioned funds—typically public transit agencies and metropolitan planning organizations

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<sup>17</sup>The full list of qualifying Transportation Enhancement activities is defined in 23 U.S.C. § 101(a)(35).

<sup>18</sup>Fixed guideway systems use and occupy a separate right-of-way for the exclusive use of public transportation services. They include fixed rail, exclusive lanes for buses and other high-occupancy vehicles, and other systems.

<sup>19</sup>Generally, to qualify for funding under the applicable formula grant program, an urbanized area must have a fixed guideway system that has been in operation for at least 7 years and is more than one mile in length.

(MPO)—develop a list of transit projects that project sponsors (typically transit agencies) submit to FTA for approval.<sup>20</sup>

Funds appropriated for the Transit Capital Assistance Program and the Fixed Guideway Infrastructure Investment Program must be used in accordance with Recovery Act requirements. States were given a 1-year deadline (March 5, 2010) to ensure that all apportioned Recovery Act funds were obligated.<sup>21</sup> The Secretary of Transportation was to withdraw and redistribute to each state or urbanized area any amount that was not obligated within these time frames.<sup>22</sup> Additionally, the governor of each state was required to certify that the state would maintain its level of spending for the types of transportation projects funded by the Recovery Act it planned to spend the day the Recovery Act was enacted. As part of this certification, the governor of each state was required to identify the amount of funds the state planned to expend from state sources from February 17, 2009, through September 30, 2010.<sup>23</sup>

The Transit Investments for Greenhouse Gas and Energy Reduction (TIGGER) Grant program, administered by the Federal Transit Administration within the Department of Transportation, is a discretionary program to support transit capital projects that result in greenhouse gas reductions or reduced energy use. The Recovery Act provides \$100 million for the TIGGER program, and each submitted proposal must request a minimum of \$2 million.

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<sup>20</sup>Metropolitan planning organizations are federally mandated regional organizations, representing local governments and working in coordination with state departments of transportation, that are responsible for comprehensive transportation planning and programming in urbanized areas. MPOs facilitate decision making on regional transportation issues, including major capital investment projects and priorities. To be eligible for Recovery Act funding, projects must be included in the region's Transportation Improvement and State Transportation Improvement Programs.

<sup>21</sup>For the Transit Capital Assistance Program and Fixed Guideway Infrastructure Investment Program, the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a grant agreement.

<sup>22</sup>Recovery Act, div. A, title XII, 123 Stat. 210.

<sup>23</sup>Recovery Act, div. A, title XII, § 1201(a).

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## Medicaid Federal Medical Assistance Percentage

Medicaid is a joint federal-state program that finances health care for certain categories of low-income individuals, including children, families, persons with disabilities, and persons who are elderly. The federal government matches state spending for Medicaid services according to a formula based on each state's per capita income in relation to the national average per capita income. The Centers for Medicare & Medicaid Services, within the Department of Health and Human Services, approves state Medicaid plans, and the amount of federal assistance states receive for Medicaid service expenditures is determined by the Federal Medical Assistance Percentage (FMAP). The Recovery Act's temporary increase in FMAP funding will provide states with approximately \$87 billion in assistance.

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## Public Housing Capital Fund

The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; to develop, finance, and modernize public housing developments; and to improve management. Under the Recovery Act, the Office of Public and Indian Housing within the U.S. Department of Housing and Urban Development (HUD) allocated nearly \$3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008 and obligated these funds to housing agencies in March 2009.

HUD was also required to award nearly \$1 billion to public housing agencies based on competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofitting. In September 2009, HUD awarded competitive grants for the creation of energy-efficient communities, gap financing for projects stalled due to financing issues, public housing transformation, and improvements addressing the needs of the elderly or persons with disabilities.

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## Weatherization Assistance Program

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, which the Department of Energy (DOE) is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes, to be spent by March 31, 2012. The program, administered by the Office of Energy Efficiency and Renewable Energy within DOE, enables low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation, sealing leaks, and modernizing heating equipment, air circulation fans, and air conditioning equipment. Over the

past 33 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. By reducing the energy bills of low-income families, the program allows these households to spend their money on other needs, according to DOE. The Recovery Act appropriation represents a significant increase for a program that has received about \$225 million per year in recent years. DOE has approved the weatherization plans of the 16 states and the District of Columbia that are in our review and has provided at least half of the funds to those areas.

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## Workforce Investment Act of 1998 Title I-B Grants

The Workforce Investment Act of 1998 (WIA) Youth, Adult, and Dislocated Worker Programs, administered by the Employment and Training Administration within the Department of Labor, provide job training and related services to unemployed and underemployed individuals. The Recovery Act provides an additional \$2.95 billion in funding for Youth, Adult, and Dislocated Worker employment and training activities under Title I-B of WIA. These funds are allotted to states, which in turn allocate funds to local entities pursuant to formulas set out in WIA. The adult program provides training and related services to individuals ages 18 and older, the youth program provides training and related services to low-income youth ages 14 to 21, and dislocated worker funds provide training and related services to individuals who have been laid off or notified that they will be laid off.<sup>24</sup>

Recovery Act funds can be used for all activities allowed under WIA, including core services, such as job search and placement assistance; intensive services, such as skill assessment and career counseling; and training services, including occupational skills training, on-the-job training, registered apprenticeship, and customized training. For the youth program, Labor encouraged states and local areas to use as much of these funds as possible to expand summer youth employment opportunities. In addition, Labor advised states that training for adults and dislocated workers should be a significant focus for Recovery Act funds, and encouraged states to establish policies to make supportive services and needs-related payments available for individuals who need these services

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<sup>24</sup>In general, a dislocated worker is an individual who has been terminated or laid off, or who has received a notice of termination or layoff, from employment; was self employed but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disasters; or is a displaced homemaker who is no longer supported by another family member. In addition, the Recovery Act provides that youth up to age 24 may be served with Recovery Act funds.

to participate in job training. To facilitate increased training for high-demand occupations, the Recovery Act expanded the methods for providing training under WIA and allowed local workforce boards to directly enter into contracts with institutions of higher education and other training providers, if the local board determines that it would facilitate the training of multiple individuals and the contract does not limit customer choice.

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## State and Local Budget

The following grant programs were mentioned in the state and local budget section of our Recovery Act reports.<sup>25</sup>

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### Airport Improvement Program

Within the Department of Transportation, the Federal Aviation Administration's Airport Improvement Program provides formula and discretionary grants for the planning and development of public-use airports. The Recovery Act provides \$1.1 billion for discretionary Grant-in-Aid for Airports under this program with priority given to projects that can be completed within 2 years. The Recovery Act requires that the funds must supplement, not supplant, planned expenditures from airport-generated revenues or from other state and local sources for airport development activities.

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### Assistance to Rural Law Enforcement to Combat Crime and Drugs Program

The Recovery Act Assistance to Rural Law Enforcement to Combat Crime and Drugs Program is administered by the Bureau of Justice Assistance (BJA), a component of the Office of Justice Programs, U.S. Department of Justice. The purpose of this program is to help rural states and rural areas prevent and combat crime, especially drug-related crime, and provides for national support efforts, including training and technical assistance programs strategically targeted to address rural needs. The Recovery Act provides \$125 million for this program, and BJA has made 212 awards.

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### Brownfields Program

The Recovery Act provides \$100 million to the Brownfields Program, administered by the Office of Solid Waste and Emergency Response within the Environmental Protection Agency, for cleanup, revitalization, and sustainable reuse of contaminated properties. The funds will be awarded

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<sup>25</sup>GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, GAO-10-231 (Washington, D.C.: Dec. 10, 2009).

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to eligible entities through job training, assessment, revolving loan fund, and cleanup grants.

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**Capital Improvement Program**

The Department of Health and Human Services' Health Resources and Services Administration has allocated \$862.5 million in Recovery Act funds for Capital Improvement Program grants to health centers to support the construction, repair, and renovation of more than 1,500 health center sites nationwide, including purchasing health information technology and expanding the use of electronic health records.

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**Child Care and Development Block Grants**

Administered by the Administration for Children and Families within the Department of Health and Human Services, Child Care and Development Block Grants, one of the funding streams comprising the Child Care and Development Fund, are provided to states, according to a formula, to assist low-income families in obtaining child care, so that parents can work or participate in education or training activities. The Recovery Act provides \$1.9 billion in supplemental funding for these grants.

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**Clean Cities Program**

The Department of Energy's Clean Cities program, administered by the Office of Energy Efficiency and Renewable Energy, is a government-industry partnership that works to reduce America's petroleum consumption in the transportation sector. The Department of Energy is providing nearly \$300 million in Recovery Act funds for projects under the Clean Cities program, which provide a range of energy-efficient and advanced vehicle technologies, such as hybrids, electric vehicles, plug-in electric hybrids, hydraulic hybrids and compressed natural gas vehicles, helping reduce petroleum consumption across the United States. The program also supports refueling infrastructure for various alternative fuel vehicles, as well as public education and training initiatives, to further the program's goal of reducing the national demand for petroleum.

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**Communities Putting Prevention to Work**

The Recovery Act provides \$650 million to carry out evidence-based clinical and community-based prevention and wellness strategies authorized by the Public Health Service Act that deliver specific, measurable health outcomes that address chronic disease rates. In response to the Act, the Department of Health and Human Services launched the Communities Putting Prevention to work initiative on September 17, 2009. The goals of the initiative, which is to be administered by the Centers for Disease Control and Prevention, are to increase levels

of physical activity, improve nutrition, decrease obesity rates, and decrease smoking prevalence, teen smoking initiation, and exposure to second-hand smoke through an emphasis on policy and environmental change at both the state and local levels. Of the \$650 million appropriated for this initiative, approximately \$450 million will support community approaches to chronic disease prevention and control; \$120 million will support the efforts of States and Territories to promote wellness, prevent chronic disease, and increase tobacco cessation; \$32.5 million is allocated for state chronic disease self-management programs; and \$40 million is allocated to establish a National Prevention Media Initiative and a National Organizations Initiative to encourage the development of prevention and wellness messages and advertisements.

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**Community Development  
Block Grants**

The Community Development Block Grant (CDBG) program, administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, enables state and local governments to undertake a wide range of activities intended to create suitable living environments, provide affordable housing, and create economic opportunities, primarily for persons of low and moderate income. Most local governments use this investment to rehabilitate affordable housing and improve key public facilities. The Recovery Act includes \$1 billion for the CDBG.

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**Community Services Block  
Grants**

Community Services Block Grants (CSBG), administered by the Administration for Children and Families within the Department of Health and Human Services, provide federal funds to states, territories, and tribes for distribution to local agencies to support a wide range of community-based activities to reduce poverty. The Recovery Act appropriated \$1 billion for CSBG.

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**Community Oriented  
Policing Services (COPS)  
Hiring Recovery Program**

The Recovery Act provided \$1 billion through the Department of Justice's (DOJ) Community Oriented Policing Service's (COPS) Hiring Recovery Program (CHRP) for competitive grant funding to law enforcement agencies to create and preserve jobs and to increase community policing capacity and crime-prevention efforts. CHRP grants provide 100 percent funding for three years to cover approved entry-level salaries and benefits for newly-hired, full-time sworn officers, including those who were hired to fill positions previously unfunded, as well as rehired officers who had been laid off. CHRP funds can also be used in the same manner to retain officers who were scheduled to be laid off as a result of local budget cuts.

There is no local funding match requirement for CHRP. When the grant term expires after three years, grantees must retain all sworn officer positions awarded under the CHRP grant for at least one additional year.

The DOJ COPS office selected local law enforcement agencies to receive funding based on fiscal health factors – such as changes in budgets for law enforcement, poverty, unemployment and foreclosure rates – and reported crime and planned community policing activities. DOJ awards 50 percent of CHRP funds to local law enforcement agencies with populations greater than 150,000 and awards the remaining 50 percent to local law enforcement agencies with populations of less than 150,000. Awards were capped at no more than 5 percent of the applicant agency’s actual sworn force strength (up to a maximum of 50 officers) and a minimum of \$5 million was allocated to each state or eligible territory.

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### Diesel Emission Reduction Act Grants

The program objective of the Diesel Emission Reduction Act Grants, administered by the Office of Air and Radiation in conjunction with the Office of Grants and Debarment, within the U.S. Environmental Protection Agency (EPA), is to reduce diesel emissions. EPA will award grants to address the emissions of in-use diesel engines by promoting a variety of cost-effective emission reduction strategies, including switching to cleaner fuels, retrofitting, repowering or replacing eligible vehicles and equipment, and idle reduction strategies. The Recovery Act appropriated \$300 million for the Diesel Emission Reduction Act grants. In addition, the funds appropriated through the Recovery Act for the program are not subject to the State Grant and Loan Program Matching Incentive provisions of the Energy Policy Act of 2005.

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### Edward Byrne Memorial Justice Assistance Grant Program

The Recovery Act provided \$2 billion through the Department of Justice’s (DOJ) Edward Byrne Memorial Justice Assistance Grant (JAG) Program for grants to state and local governments for law enforcement and criminal justice activities. JAG funds can be used to support a range of activities in seven broad program areas: (1) law enforcement; (2) prosecution and courts; (3) crime prevention and education; (4) corrections; (5) drug treatment and enforcement; (6) program planning, evaluation, and technology improvement; and (7) crime victim and witness programs. Within these areas, JAG funds can be used for state and local initiatives, training, personnel, equipment, supplies, contractual support, research, and information systems for criminal justice.

Although each state is guaranteed a minimum allocation of JAG funding, states and localities therein must apply to DOJ's Bureau of Justice Assistance (BJA) to receive their grant awards. BJA applies a statutory formula based on population and violent crime statistics to determine annual funding levels. After applying the formula, BJA distributes each state's allocation in two ways:

- BJA awards 60 percent directly to the state, and the state must in turn allocate a formula-based share of these funds – considered a “variable pass-through,” to its local governments; and
- BJA awards the remaining 40 percent directly to eligible units of local government within the state.

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### Energy Efficiency and Conservation Block Grants

The Energy Efficiency and Conservation Block Grants (EECBG), administered by the Office of Energy Efficiency and Renewable Energy within the Department of Energy, provides funds through competitive and formula grants to units of local and state government and Indian tribes to develop and implement projects to improve energy efficiency and reduce energy use and fossil fuel emissions in their communities. The Recovery Act includes \$3.2 billion for the EECBG. Of that total, \$400 million is to be awarded on a competitive basis to grant applicants.

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### Health Information Technology Extension Program

The Department of Health and Human Services' Health Information Technology Extension Program, administered by the Office of the National Coordinator for Health Information Technology, allocated \$643 million to establish 60 Health Information Technology Regional Extension Centers (RECs) and \$50 million to establish a national Health Information Technology Research Center (HITRC). The first cycle of awards, announced February 12, 2010, provided \$375 million to create 32 RECs, while the second cycle of awards, announced April 6, 2010, provided \$267 million to establish 28 RECs. RECs offer technical assistance, guidance, and information on best practices for the use of Electronic Health Records (EHRs) to health care providers. The HITRC supports RECs efforts by collecting information on best practices from a wide variety of sources across the country and by acting as a virtual community for RECS to collaborate with one another and with relevant stakeholders to identify and share best practices for the use of EHRs. The goal of the RECs and HITRC is to enable nationwide health information exchange through the adoption and meaningful use of secure EHRs.

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**High-Speed Intercity  
Passenger Rail Program**

The High-Speed Intercity Passenger Rail Program (HSIPR) is administered by the Federal Railroad Administration, within the Department of Transportation. The purpose of the HSIPR Program is to build an efficient, high-speed passenger rail network connecting major population centers 100 to 600 miles apart. In the near-term, the program will aid in economic recovery efforts and lay the foundation for this high-speed passenger rail network through targeted investments in existing intercity passenger rail infrastructure, equipment and intermodal connections. In addition to the \$8 billion provided in the Recovery Act, the HSIPR Program also included approximately \$92 million in FY 2009 and remaining FY 2008 funds appropriated under the existing State Grant Program (formally titled, Capital Assistance to States – Intercity Passenger Rail Service). The FY 2010 DOT Appropriation included \$2.5 billion for high speed rail and intercity passenger rail projects.

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**Homelessness Prevention  
and Rapid Re-Housing  
Program**

The Homelessness Prevention and Rapid Re-Housing Program, administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, awards formula grants to states and localities to prevent homelessness and procure shelter for those who have become homeless. Funding for this program is being distributed based on the formula used for the Emergency Shelter Grants program. According to the Recovery Act, program funds should be used for short-term or medium-term rental assistance; housing relocation and stabilization services, including housing search, mediation or outreach to property owners, credit repair, security or utility deposits, utility payments, and rental assistance for management; or appropriate activities for homeless prevention and rapid re-housing of persons who have become homeless. The Recovery Act includes \$1.5 billion for this program.

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**Increased Demand for  
Services**

The Department of Health and Human Services' Health Resources and Services Administration (HRSA) has allocated Recovery Act funds for Increased Demand for Services (IDS) grants to health centers to increase health center staffing, extend hours of operations, and expand existing services. The Recovery Act provided \$500 million for health center

operations. HRSA has allocated \$343 million for IDS grants to health centers.<sup>26</sup>

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**Internet Crimes Against Children Initiatives**

Internet Crimes Against Children Initiatives (ICAC), administered by the Department of Justice, Office of Justice Programs' (OJP) Office of Juvenile Justice and Delinquency Prevention (OJJDP), seeks to maintain and expand state and regional ICAC task forces to address technology-facilitated child exploitation. This program provides funding to states and localities for salaries and employment costs of law enforcement officers, prosecutors, forensic analysts, and other related professionals. The Recovery Act appropriated \$50 million for ICAC.

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**National Endowment for the Arts Recovery Act Grants**

The Recovery Act provides \$50 million to be distributed in direct grants by the National Endowment for the Arts to fund arts projects and activities that preserve jobs in the nonprofit arts sector threatened by declines in philanthropic and other support during the current economic downturn.

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**Neighborhood Stabilization Program 2**

The Neighborhood Stabilization Program (NSP), administered by the Office of Community Planning and Development within the Department of Housing and Urban Development, provides assistance for the redevelopment of abandoned and foreclosed homes and residential properties in order that such properties may be returned to productive use or made available for redevelopment purposes. The \$2 billion in NSP2 funds appropriated in the Recovery Act are competitively awarded to states, local governments, and nonprofit organizations.<sup>27</sup> NSP is considered to be a component of the Community Development Block Grant (CDBG) program and basic CDBG requirements govern NSP.

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<sup>26</sup>The Recovery Act provided \$2 billion to the Health Resources and Services Administration (HRSA) for grants to health centers. Of this total, \$1.5 billion is for the construction and renovation of health centers and the acquisition of HIT systems, and the remaining \$500 million is for operating grants to health centers. Of the \$500 million for health center operations, HRSA has allocated \$157 million for New Access Point grants to support health centers' new service delivery sites, and \$343 million for Increased Demand Services grants.

<sup>27</sup>NSP, a term that references the NSP funds authorized under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008, provides grants to all states and selected local governments on a formula basis. Under NSP, HUD allocated \$3.92 billion on a formula basis to states, territories, and selected local governments. The term "NSP2" references the NSP funds authorized under the Recovery Act on a competitive basis.

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**Port Security Grant Program**

The Port Security Grant Program provides grant funding to port areas for the protection of critical port infrastructure from terrorism. The Recovery Act provides \$150 million in stimulus funding for the Port Security Grant Program (PSGP) administered by the Federal Emergency Management (FEMA), an agency of Homeland Security. PSGP funds are primarily intended to assist ports in enhancing maritime domain awareness, enhancing risk management capabilities to prevent, detect, respond to and recover from attacks involving improvised explosive devices, weapons of mass destruction and other non-conventional weapons as well as training and exercises and Transportation Worker Identification Credential implementation. Ports compete for funds and priority is given to cost-effective projects that can be executed expeditiously and have a significant and near-term impact on risk mitigation.

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**Race to the Top Fund**

The Recovery Act includes up to \$5 billion for the Race to the Top Fund, administered by the Office of Elementary and Secondary Education (OESE) within the Department of Education. According to Education, awards in Race to the Top will go to states that are leading the way with ambitious yet achievable plans for implementing coherent, compelling, and comprehensive educational reform. Through Race to the Top Education asks states to advance reforms in four specific areas: adopting standards and assessments that prepare students to succeed in college and the workplace and to compete in the global economy; building data systems that measure student growth and success, and inform teachers and principals about how they can improve instruction; recruiting, developing, rewarding, and retaining effective teachers and principals, especially where they are needed most; and turning around our lowest achieving schools.

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**Recovery Act Assistance to Firefighters Fire Station Construction Grants**

The Recovery Act Assistance to Firefighters Fire Station Construction Grants, also known as fire grants or the FIRE Act grant program, is administered by the Department of Homeland Security, Federal Emergency Management Agency (FEMA), Assistance to Firefighters Program Office. The program provides federal grants directly to fire departments on a competitive basis to build or modify existing non-Federal fire stations in order for departments to enhance their response capability and protect the communities they serve from fire and fire-related hazards. The Recovery Act includes \$210 million for this program and provides that no grant shall exceed \$15 million.

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**Recovery Act Impact on  
Child Support Incentives**

The Child Support Enforcement (CSE) Program (title IV-D of the Social Security Act) is a joint federal-state program administered by the Administration for Children and Families (ACF), within the Department of Health and Human Services. The program provides federal matching funds to states to carry out their child support enforcement programs, which enhance the well-being of children by, among other things, establishing paternity, establishing child support orders, and collecting child support. Furthermore, ACF makes additional incentive payments to states based in part on their child support enforcement programs meeting certain performance goals. States must reinvest their incentive fund payments into the CSE program or an activity to improve the CSE program; however, incentive funds reinvested in the CSE program are not eligible for federal matching funds. Funds for the federal matching payments and incentive payments are appropriated annually and the Recovery Act does not appropriate funds for either of them. However, the Recovery Act temporarily provides for incentive payments expended by states for child support enforcement to count as state funds eligible for the federal match. This change is effective October 1, 2008, through September 30, 2010.

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**Renewable and Distributed  
Systems Integration**

The Renewable and Distributed Systems Integration (RDSI) program, administered by the Office of Electricity Delivery and Energy Reliability within the Department of Energy, focuses on integrating renewable and distributed energy technologies into the electric distribution and transmission system. In April 2008, DOE announced plans to invest up to \$50 million over five years (fiscal years 2008-2012) in nine projects aimed at demonstrating the use of RDSI technologies to reduce peak load electricity demand by at least 15 percent at distribution feeders—the power lines delivering electricity to consumers. The program goal is to reduce peak load electricity demand by 20 percent at distribution feeders by 2015.

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**Senior Community Service  
Employment Program**

The Senior Community Service Employment Program (SCSEP), administered by the Employment and Training Administration within the Department of Labor, is a community service and work based training program which serves low-income persons who are 55 years or older and have poor employment prospects by placing them in part-time community service positions and by assisting them to transition to unsubsidized employment. The Recovery Act provides \$120 million for SCSEP.

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Services\*Training\*Officers  
\*Prosecutors (STOP)  
Violence Against Women  
Formula Grants Program

Under the STOP Program, the Office on Violence Against Women within the Department of Justice, has awarded over \$139 million in Recovery Act funds to promote a coordinated, multidisciplinary approach to enhance services and advocacy to victims, improve the criminal justice system’s response, and promote effective law enforcement, prosecution, and judicial strategies to address domestic violence, dating violence, sexual assault, and stalking.

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Smart Grid Investment  
Grant Program

Under the Recovery Act, states will receive \$3.4 billion to deploy and integrate advanced digital technology to modernize the electric delivery network through the Smart Grid Investment Grant Program, administered by the Office of Electricity Delivery and Energy Reliability within the Department of Energy. The program funds a broad range of projects aimed at applying smart grid technologies to existing electric system equipment, consumer products and appliances, meters, electric distribution and transmission systems, and homes, offices, and industrial facilities.

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Staffing for Adequate Fire  
and Emergency Response

The Staffing for Adequate Fire and Emergency Response grants program, administered by the Federal Emergency Management Agency within the Department of Homeland Security, was created to provide funding directly to volunteer, combination, and career fire departments<sup>28</sup> to help them increase staffing and enhance their emergency deployment capabilities. The goal of SAFER is to ensure departments have an adequate number of trained, frontline active firefighters capable of safely responding to and protecting their communities from fire and fire-related hazards. SAFER provides 2-year grants to fire departments to pay the salaries of newly hired firefighters or to rehire recently laid-off firefighters. Fire departments using SAFER funding to hire new fire fighters commit to retaining the SAFER-funded firefighters for one full year after the 2-year grant has been expended. The retention commitment does not extend to previously laid-off firefighters who have been rehired. In addition, volunteer and combination firefighter departments are eligible to apply for

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<sup>28</sup>Per FEMA’s definition, a “volunteer fire department is composed entirely of members who do not receive compensation other than a length of service retirement program (LSOP) and insurance. A career department is one in which all members are compensated for their services. A combination department has at least one volunteer, with the balance being career members, or one career member with the balance being volunteers. Also, if a volunteer fire department provides stipends to their members or provides pay-on-call for their members, the department is considered to be combination.”

SAFER funding to pay for activities related to the recruitment and retention of volunteer firefighters.<sup>29</sup>

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### State Broadband Data and Development Program

The Recovery Act appropriated \$7.2 billion to extend access to broadband throughout the United States. Of the \$7.2 billion, \$4.7 billion was appropriated to the Department of Commerce's (DOC) National Telecommunications and Information Administration (NTIA) and \$2.5 billion to the Department of Agriculture's (USDA) Rural Utilities Service (RUS). Of the \$4.7 billion, up to \$350 million was available pursuant to the Broadband Data Improvement Act (DBIA) and for the purpose of developing and maintaining a nationwide map featuring the availability of broadband service. DBIA directs the Secretary of Commerce to establish the State Broadband Data and Development Grant Program and to award grants to eligible entities to develop and implement statewide initiatives to identify and track the adoption and availability of broadband services within each State. To accomplish the joint purposes of the Recovery Act and BIDA, NTIA has developed the State Broadband Data and Development projects that collect comprehensive and accurate state-level broadband mapping data, develop state-level broadband maps, aid in the development and maintenance of a national broadband map, and fund statewide initiatives directed at broadband planning.

### State Energy Program

Under the Recovery Act, states will receive \$3.1 billion for energy projects through the State Energy Program (SEP), administered by the Office of Energy Efficiency and Renewable Energy within the Department of Energy (DOE). States should prioritize the grants toward funding energy efficiency and renewable energy programs, including expanding existing energy efficiency programs, renewable energy projects and joint activities between States. The State Energy Program's (SEP) 20 percent cost match is not required for grants made with Recovery Act funds. DOE estimates that SEP funding will have an annual costs savings of \$256 million.

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<sup>29</sup>Volunteer fire departments are eligible to apply for both Hiring and Recruitment and retention grants. Combination fire departments are eligible to apply for both Hiring and Rehiring of firefighters and recruitment and retention of volunteer firefighters SAFER grants. Career fire departments are only eligible to apply for SAFER hiring/rehiring of firefighters grants.

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**State Health Information Exchange Cooperative Agreement Program**

Under the Department of Health and Human Services' State Health Information Exchange (HIE) Cooperative Agreement Program, \$564 million has been allocated to support states' efforts to develop the capacity among health care providers and hospitals in their jurisdiction to exchange health information across health care systems through the meaningful use of Electronic Health Records (EHR). The meaningful use of EHRs aims to improve the quality and efficiency of patient care. In order to ensure secure and effective use of HIE technology within and across state borders, grant recipients are expected to use their authority and resources to implement HIE privacy and security requirements, coordinate with Medicaid and state public health programs in using HIE technology, and enable interoperability through the creation of state-level directories and technical services and the removal of barriers. The state HIE program uses a cooperative agreement, or partnership between the grant recipient and the federal government, to administer the awards (when the Federal government has a substantial stake in the outcomes or operation of the program). The state HIE cooperative agreements are 4-year agreements and recipients will be required to match grant awards beginning in the second year of the award, 2011.

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**Supplemental Nutrition Assistance Program (formerly the Food Stamp Program)**

The Supplemental Nutrition Assistance Program (SNAP), administered by the Food and Nutrition Service within the Department of Agriculture, serves more than 35 million people nationwide each month. SNAP's goal, in part, is to help raise the level of nutrition and alleviate the hunger of low-income households. The Recovery Act provides for a monthly increase in benefits for the program's recipients. The increases in benefits under the Recovery Act are estimated to total \$20 billion over the next 5 years.

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**Title IV-E Adoption Assistance and Foster Care Programs**

Administered by the Administration for Children and Families within the Department of Health and Human Services, the Foster Care Program helps states to provide safe and stable out-of-home care for children until the children are safely returned home, placed permanently with adoptive families or placed in other planned arrangements for permanency. The Adoption Assistance Program provides funds to states to facilitate the timely placement of children, whose special needs or circumstances would otherwise make placement difficult, with adoptive families. Federal Title IV-E funds are paid to reimburse states for their maintenance

payments using the states' respective Federal Medical Assistance Percentage (FMAP) rates.<sup>30</sup> The Recovery Act temporarily increased the FMAP rate effective October 1, 2008 through December 31, 2010, resulting in an estimated additional \$806 million that will be provided to states for the foster care and adoption assistance programs.

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**Transportation Investment  
Generating Economic  
Recovery Discretionary  
Grants**

Administered by the Department of Transportation's Office of the Secretary, the Recovery Act provides \$1.5 billion in competitive grants, generally between \$20 million and \$300 million, to state and local governments, and transit agencies. These grants are for capital investments in surface transportation infrastructure projects that will have a significant impact on the nation, a metropolitan area, or a region. Projects eligible for funding provided under this program include, but are not limited to, highway or bridge projects, public transportation projects, passenger and freight rail transportation projects, and port infrastructure investments.

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**Wildland Fire Management  
Program**

The Department of Agriculture's Forest Service administers the Wildland Fire Management Program funding for projects on federal, state, and private land. The goals of these projects include ecosystem restoration, research, and rehabilitation; forest health and invasive species protection; and hazardous fuels reduction. The Recovery Act provided \$500 million for the Wildland Fire Management program.

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<sup>30</sup>See the FMAP description in this appendix.

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