

July 2009

RECOVERY ACT

States' and Localities' Current and Planned Uses of Funds While Facing Fiscal Stresses (Iowa)



GAO

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Appendix VII: Iowa

Overview

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

Use of funds: Our work in Iowa focused on eight federal programs, selected primarily because they have begun disbursing funds to the state. These include existing programs receiving significant amounts of Recovery Act funds or significant increases in funding. Program funds are being used to help Iowa stabilize its budget and support local governments, particularly school districts, and several are being used to expand existing programs. Funds from some of these programs are intended for disbursement through the state or directly to localities. The funds include the following:

- **Funds made available as a result of increased Medicaid Federal Medical Assistance Percentage (FMAP).**² As of June 29, 2009, Iowa has received about \$136 million in increased FMAP grant awards, of which it has drawn down almost \$127 million, or over 93 percent. As a result, Iowa is using funds to offset the state budget deficit, cover the state's increased Medicaid caseload, and maintain current populations and benefits, and it is planning to use these funds to expand Medicaid eligibility.
- **Highway Infrastructure Investment funds.** On March 2, 2009, the U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned almost \$358 million in Recovery Act funds to Iowa. As of June 25, 2009, \$319 million has been obligated for 165 highway projects.
- **U.S. Department of Education State Fiscal Stabilization Fund (SFSF).** Iowa was allocated about \$472 million in SFSF funds, of which \$386 million is for education stabilization. As of June 30, 2009, the Iowa Department of Education had disbursed \$40 million of these funds to school districts. The Iowa Department of Education plans to

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

²The increased FMAP available under the Recovery Act is for state expenditures for Medicaid services. The receipt of this increased FMAP may reduce the funds that states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

use these funds to maintain spending for higher education at fiscal year 2009 levels for fiscal year 2010 and for previously approved increases for grades K-12 for fiscal year 2010, with remaining funds to be used in fiscal year 2011.

- **Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA).** As of June 30, 2009, Iowa received about \$26 million in Recovery Act ESEA Title I, Part A, funds, or one-half of its estimated \$51 million total allocation and had disbursed about \$8 million of these funds to school districts. The Iowa Department of Education has provided guidance to school districts regarding uses and reporting of these funds to develop a capacity to serve disadvantaged youth by, for example, providing professional development to teachers.
- **Individuals with Disabilities Education Act (IDEA), Part B.** As of June 30, 2009, Iowa was allocated about \$63 million in Recovery Act IDEA, Part B funds, or one-half of its estimated \$126 million total allocation and the Iowa Department of Education had disbursed about \$25 million of these funds to school districts and area education agencies. These funds will be used to support special education and related services for children and youth with disabilities. For example, one Iowa area education agency plans to use IDEA, Part B funds to hire speech pathologists and purchase hearing evaluation equipment.
- **Weatherization Assistance Program.** The U.S. Department of Energy (DOE) allocated almost \$81 million in Recovery Act weatherization funding to Iowa for 3 years. In March 2009, DOE provided about \$8.1 million to Iowa, and as of June 30, 2009, Iowa's Department of Human Rights, Division of Community Action Agencies obligated at least \$5 million for "ramp up" activities. Iowa plans to weatherize about 7,200 homes by, for example, installing insulation, sealing leaks around doors and windows, and modernizing heating and air equipment.
- **Edward Byrne Memorial Justice Assistance Grants (JAG).** The Department of Justice's Bureau of Justice Assistance (BJA) has awarded about \$12 million directly to Iowa in Recovery Act funding. Based on information available as of June 30, 2009, none of these funds have been obligated by the Office of Drug Control Policy, which

administers these grants for the state.³ Iowa's Office of Drug Control Policy plans to provide grant funds, on a competitive basis, to local and state units of government and nonprofit organizations to address priorities set forth in Iowa's Drug Control Strategy. The focus will be on creating and preserving jobs in such areas as law enforcement, correctional and substance abuse treatment, and prevention services.

- **Public Housing Capital Fund.** The U.S. Department of Housing and Urban Development (HUD) has allocated almost \$8 million in Recovery Act funding to 48 public housing agencies in Iowa. Based on information available as of June 20, 2009, approximately \$1.6 million (or 22 percent) has been obligated by those agencies. Projects undertaken by local public housing authorities and funded by the Recovery Act involve a variety of tasks, such as reroofing buildings; replacing plumbing and air-conditioning systems; installing new carpet, countertops, and appliances in individual units; and repairing concrete on sidewalks and in parking lots.

Safeguarding and transparency: Iowa will use existing, as well as enhanced, safeguards and controls for Recovery Act programs and is considering ways to show Recovery Act spending by localities. For example, state accounting officials have developed unique accounting codes to track Recovery Act funds and have entered into cooperative agreements with other state agencies to document each agency's responsibility to review expenditures for compliance with laws and regulations and ensure that expenditures are supported by appropriate documentation. However, a few agencies do not report transactions through the state system. For example, Recovery Act funds that the Iowa Department of Transportation and Board of Regents receive are not itemized at the same level of detail as other state agencies. Furthermore, the centralized accounting system does not include some Recovery Act funds that the Iowa Finance Authority and the Department of Natural Resources receive directly. The Iowa state accounting system does not account for Recovery Act funds that cities, counties, and local governments receive directly. State accounting officials told us they are working with all of these entities to establish procedures for financial oversight.

³We did not review Edward Byrne Memorial Justice Assistance grants awarded directly to local governments in this report because BJA's solicitation for local governments closed on June 17, 2009; therefore, not all of these funds have been awarded.

Other mechanisms in the state to monitor the expenditure of Recovery Act funds include the Office of the State Auditor, which audits state and local entities, and the Governor's newly created Iowa Accountability and Transparency Board (Iowa Board), which will assess existing practices to prevent fraud, waste, and abuse, as well as oversee real-time audits and reporting and make recommendations to ensure that best practices are implemented. The Iowa Board plans to assess and report on existing state practices to prevent waste, fraud, and abuse of Recovery Act funds by (1) reviewing Single Audit reports for all state agencies, (2) implementing and reviewing risk profile surveys for all agencies, and (3) determining risk levels for individual agencies.

Assessing the effects of spending: While Iowa state agencies await federal guidance on how to assess the results of Recovery Act spending, most agencies continue to consider various approaches to measure outcomes. Some state agencies collect data that may be used to identify the number of jobs created and saved from the use of Recovery Act funds, such as tracking worker hours for construction contracts. Other agencies have developed their own methodologies to measure results, such as tracking lease rates for vacant units following renovations that use Recovery Act funds. Some agencies said they have the accounting systems in place to measure outcomes. Although they are not required to report through the state, some local agencies also have plans to track results of Recovery Act spending. However, in the absence of specific guidance, most state agency officials continue to question how to accurately calculate and report results based on Recovery Act funds, including how to track outcomes separately from other recovery initiatives. For example, Iowa's Infrastructure Investment Initiative, or I-JOBS, will provide funding for a variety of infrastructure programs, in addition to funding provided by the Recovery Act.

Recovery Act Funds Helped Iowa Respond to Declining Revenues and Balance Its Budget for Fiscal Years 2009 and 2010

Iowa is using approximately \$710.3 million in Recovery Act funding to help balance its budget for fiscal years 2009 and 2010.⁴ Iowa's governor and General Assembly have statutory responsibility to use the expenditure limitation in the preparation and approval of the state budget.⁵ The expenditure limitation is based on the revenue estimates agreed to by Iowa's Revenue Estimating Conference—a conference of the governor or a designee, the director of the Legislative Services Agency or a designee, and a third member agreed to by the other two—that convenes quarterly to prepare the state's estimates of tax-receipt revenues for use in preparing the annual budget. In December 2008, based on declining revenue estimates, the Governor directed an across-the-board 1.5 percent reduction in the state's General Fund appropriations. In March 2009, Iowa's Revenue Estimating Conference reduced its projection of available General Fund revenues by \$81.7 million in fiscal year 2009 and by \$269.9 million in fiscal year 2010—resulting in a projected shortfall of \$66.6 million for fiscal year 2009. In response to this projection, the Governor proposed a revised budget for fiscal year 2010 of \$5.9 billion for the state's General Fund, representing a 7.9 percent reduction for many state programs. The General Assembly finalized a state budget on April 26, 2009, and the Governor signed the last fiscal year 2010 appropriations bills into law on May 26, 2009.

Another \$166.2 million in Recovery Act funding allowed state agencies to avoid program cuts as well as mandatory layoffs and furloughs in 2009. For instance, according to senior state budget officials, Iowa will use its increased FMAP funding to maintain Medicaid services. Before receiving the additional Medicaid funding the Recovery Act provided, the state was considering reducing services, decreasing eligibility requirements, reducing waiver services, or funding the shortfall with state appropriations. Nevertheless, some state agencies are taking additional measures to diminish the severity of budget shortfalls, such as considering furloughs, not filling vacant positions, and limiting out-of-state travel.

Currently, the fiscal year 2010 General Fund budget is balanced, and there is no projected budget shortfall. Iowa plans to use approximately \$544.1 million in Recovery Act funding primarily to maintain funding levels for existing education and health care programs. According to a state budget official, the fiscal year 2010 budget includes SFSF funds that will be used

⁴Iowa's fiscal year begins July 1 and ends June 30.

⁵Iowa Code § 8.54(4).

to avoid laying off teachers, among other purposes. In addition, state officials plan to transfer \$145.3 million from the state's Cash Reserve Fund to the General Fund.⁶ State officials will consider any necessary actions to balance the fiscal year 2010 budget in October 2009, when the Revenue Estimating Conference again assesses state revenue projections. If necessary, the Governor would adjust his fiscal year 2010 budget proposal and impose mandatory cuts for fiscal year 2010 similar to those instituted for fiscal year 2009. According to budget officials, some agencies may need to take actions such as imposing furloughs and reducing hours and services to avoid potential shortfalls for fiscal year 2010.

In anticipation of fiscal year 2011, when Recovery Act funding phases out, Iowa's Department of Management plans to begin developing a budget strategy when the Revenue Estimating Conference meets in October to revise revenue estimates and make projections for fiscal year 2011. Until then, state budget officials reported that they have limited ability to plan for the phasing out of Recovery funds because the state only has revenue projections for fiscal year 2010, and state law does not provide a mechanism for estimating revenue for fiscal year 2011 until the end of fiscal year 2009. Nevertheless, state agencies have been encouraged to develop individual budget contingency plans.

To supplement Recovery Act funds, on May 26, 2009, Iowa's Governor signed the final appropriations bills for I-JOBS. The program provides \$295 million for disaster recovery and rebuilding programs, \$300 million for infrastructure projects, \$115 million for transportation projects, and \$120 million for a variety of other infrastructure programs. The Governor appointed an I-JOBS Board to oversee the distribution of grants for a portion of the \$830 million program in the summer of 2009. Iowa will also sell \$591 million of special obligation revenue bonds in July 2009. The fiscal year 2010 budget includes direct appropriations from Iowa's "Rebuild Iowa Infrastructure Fund"—the state's primary funding source for public infrastructure-related expenditures.

⁶Iowa has two budget reserve funds, the Cash Reserve Fund and the Economic Emergency Fund. The balance in the General Fund at year-end must be used to replenish both of these funds. The Cash Reserve Fund is limited to 7.5 percent of state General Fund revenues and the Economic Emergency Fund is limited to 2.5 percent. The Cash Reserve Fund limit must be reached prior to depositing funds in the Economic Emergency Fund. Once these funds are full, any remaining funds are available for authorization in the next fiscal year.

Stimulus Funds Are Key to Addressing Growth in Medicaid Enrollment in Iowa

- ✓ **U.S. Department of Health and Human Services—Medicaid FMAP**
- From October 2007 to May 2009, the state's Medicaid enrollment grew from 356,760 to 410,857, an increase of 15 percent.
 - Iowa received increased FMAP grant awards of \$136 million for the first 3 quarters of federal fiscal year 2009.
 - As of June 29, 2009, Iowa had drawn down almost \$127 million in increased FMAP grant awards, which is over 93 percent of its awards to date.

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 rate at which states are reimbursed for Medicaid service expenditures is known as FMAP, which may range from 50 percent to no more than 83 percent. The Recovery Act provides eligible states with an increased FMAP for 27 months from October 1, 2008, through December 31, 2010.⁷ On February 25, 2009, the Centers for Medicare & Medicaid Services (CMS) made increased FMAP grant awards to states, and states may retroactively claim reimbursement for expenditures that occurred prior to the effective date of the Recovery Act.⁸ Generally, for federal fiscal year 2009 through the first quarter of federal fiscal year 2011, the increased FMAP, which is calculated on a quarterly basis, provides for: (1) the maintenance of states' prior year FMAPs, (2) a general across-the-board increase of 6.2 percentage points in states' FMAPs, and (3) a further increase to the FMAPs for those states that have a qualifying increase in unemployment rates. 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 states would otherwise have to use for their Medicaid programs, and states have reported using these available funds for a variety of purposes.

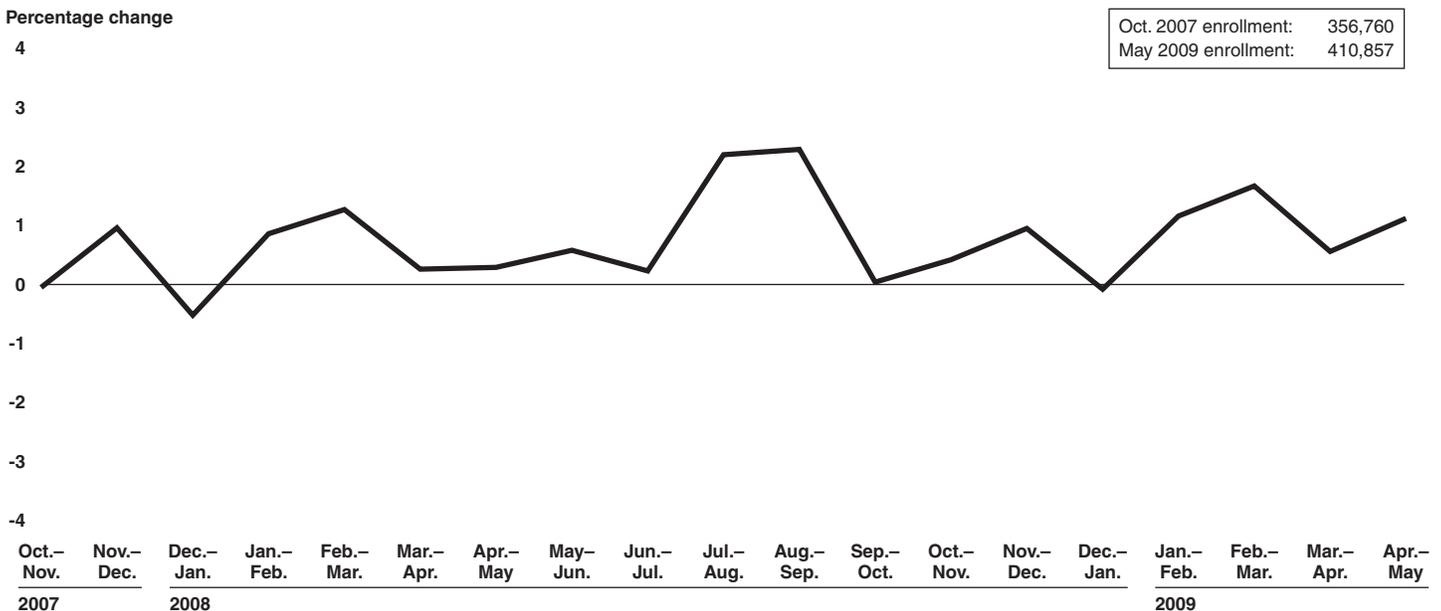
⁷See Recovery Act, div. B, title V, §5001.

⁸Although the effective date of the Recovery Act was February 17, 2009, states generally may claim reimbursement for the increased FMAP for Medicaid service expenditures made on or after October 1, 2008.

Increased FMAP Funds Are Allowing Iowa’s Planned Program Expansions in Medicaid to Move Forward Despite Enrollment Growth

From October 2007 to May 2009, Iowa’s Medicaid enrollment grew from 356,760 to 410,857, an increase of 15 percent.⁹ The enrollment increase was generally gradual during this period (fig. 1). Most of the increase in enrollment was attributable to the population groups of (1) children and families and (2) non-disabled non-elderly adults.

Figure 1: Monthly Percentage Change in Medicaid Enrollment for Iowa, October 2007 to May 2009



Source: GAO analysis of state reported data.

Note: The state provided projected Medicaid enrollment data for May 2009.

As of June 29, 2009, Iowa had drawn down almost \$127 million in increased FMAP grant awards, which is over 93 percent of its awards to date.¹⁰ Iowa officials reported that they are using funds made available as a result of the increased FMAP to offset the state budget deficit, to cover an increased Medicaid caseload, and to maintain current Medicaid benefits and populations. These officials further reported that they are planning to

⁹Iowa provided projected Medicaid enrollment data for May 2009.

¹⁰Iowa received increased FMAP grant awards of \$136 million for the first three quarters of federal fiscal year 2009.

use these funds to expand eligibility pending CMS approval to do so. Specifically, Medicaid officials indicated that the funds made available as a result of the increased FMAP will allow the state to implement a Medicaid and State Children's Health Insurance Program expansion for children in families with incomes up to 300 percent of the federal poverty level, an initiative that was previously enacted and scheduled as part of the state's broader health reform objective.¹¹

In using the increased FMAP, Iowa officials reported that the Medicaid program has incurred additional costs related to

- personnel needed to ensure compliance with reporting requirements for the increased FMAP;
- the development of new or adjustments to existing reporting systems or other information technology systems; and
- personnel associated with routine administration of the state's Medicaid program.¹²

Iowa Medicaid officials indicated that they did not have any concerns regarding the state's ability to maintain eligibility for the increased FMAP. In addition, as we previously reported, Iowa Medicaid officials indicated that the state tracks the increased FMAP using existing systems. According to Iowa officials, the Accountability and Transparency Board will have oversight of all Recovery Act funds provided to state agencies—including the Medicaid agency. The 2007 and 2008 Single Audits for Iowa

¹¹The state also reported a number of efforts to expand eligibility. For example, beginning July 1, 2009, it will extend Medicaid coverage to legal permanent resident alien children under the age of 19 (who are currently subject to a 5-year waiting period for enrollment) and will adopt presumptive eligibility. The Balanced Budget Act of 1997 gives states the option of allowing "qualified entities" to "presumptively" enroll children in Medicaid who appear to be eligible based on their age and family income. Presumptive eligibility is a process that provides immediate access to health care services for a limited period of time for children who appear to qualify for Medicaid while eligibility is being determined.

¹²In their technical comments to us, state officials said that the state dedicated staff time to these functions but had not outlaid additional dollars to perform these functions. The state absorbed the additional work within existing staff. The state did not provide additional personnel or funds for system changes to accommodate the increased FMAP.

identified no material weaknesses related to the data systems or other aspects of the Medicaid program.¹³

Iowa Department of Transportation Has Awarded Contracts for and Begun Work on Highway Projects

- ✓ **U.S. Department of Transportation—Highway Infrastructure Investment**
- On March 2, 2009, the U.S. Department of Transportation apportioned about \$358 million to Iowa for highway infrastructure investment.
 - As of June 25, 2009, funds have been obligated for 165 projects valued at about \$319 million, or 89 percent of Recovery Act funds apportioned.
 - Contracts have been awarded for projects that could be initiated and completed quickly and are located in economically distressed areas.

The Recovery Act provides funding to the states to restore, repair, and construct highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program, and for other eligible surface transportation projects. The act requires that 30 percent of these funds be suballocated for projects in metropolitan and other areas of the state. Highway funds are apportioned to the states through existing federal-aid highway program mechanisms, and states must follow the requirements of the existing program, such as planning, environmental review, and contracting. However, the federal fund share of highway infrastructure investment projects under the Recovery Act is up to 100 percent, while the federal share under the existing federal-aid highway program is generally 80 percent.

As we reported in April 2009, Iowa was apportioned \$357.7 million for highway infrastructure and other eligible projects. As of June 25, 2009, \$319 million has been obligated for 165 highway projects. The U.S. Department of Transportation has interpreted the term “obligation of funds” to mean the federal government’s contractual commitment to pay

¹³The Single Audit Act of 1984, as amended (31 U.S.C. ch. 75), requires that each state, local government, or nonprofit organization that expends \$500,000 or more a year in federal awards must have a single audit conducted for that year subject to applicable requirements, which are generally set out in Office of Management and Budget (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, the entity may elect to have an audit of that program.

for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement. As of June 25, 2009, \$26.2 million has been reimbursed by the FHWA. States request reimbursement as they make payments to contractors working on approved projects.

For the most part, Iowa is initiating pavement improvement projects that were already in its state transportation improvement plans prior to the passage of the Recovery Act because, according to state transportation officials, these projects can be done quickly and create jobs immediately. Table 1 shows these obligations by project type for the state’s Recovery Act transportation projects. According to FHWA officials, most contractors will have started work by July 2009. According to FHWA data, more than 85 percent of Recovery Act funds that had been obligated as of June 25, 2009, were for pavement improvement projects.

Table 1: Highway Obligations for Iowa by Project Type as of June 25, 2009

Dollars in millions

	Pavement projects			Bridge projects			Other ^a	Total
	New construction	Pavement improvement	Pavement widening	New construction	Replacement	Improvement		
	\$14	\$281	\$0	\$0	\$20	\$1	\$3	\$319
Percent of total obligations	4.5	88.1	0.0	0.0	6.3	0.2	0.9	100.0

Source: GAO analysis of FHWA data.

^aIncludes safety projects such as improving safety at railroad grade crossings, transportation enhancement projects such as pedestrian and bicycle facilities, engineering, and right-of-way purchases.

As of June 22, 2009, for those projects where funds have been obligated, Iowa Department of Transportation officials told us that 45 projects representing \$178 million had begun and that 127 projects, valued at \$216 million, are expected to be completed by the end of December 2009. According to Iowa transportation officials, state-administered highway projects initiated under the Recovery Act are funded by Recovery Act funds, while locally administered highway projects are funded using both Recovery Act and local government funds.

In May 2009, Iowa transportation officials told us that contracts for Recovery Act projects are being awarded for less than estimated—primary projects were being awarded for about 5 percent to 7 percent under the state’s estimate. Iowa transportation officials said they believe that initial

bids were lower than estimated costs because of the overall slowdown in construction work and because it was the beginning of the construction season. For example, March bids were lower than those offered in April because contractors were eager for work. However, FHWA officials said they expect bid prices to increase closer to estimated costs as summer approaches and there is more work. State transportation officials said they expect to use Iowa contractors, except for some projects, such as bridge painting, that they cannot fill with prequalified Iowa contractors. In addition, they said that construction companies located in other states bid on the Iowa highway projects, particularly in locations near the state's borders.

Iowa Is Meeting Recovery Act Requirements for Highway Infrastructure Spending

Funds apportioned for highway infrastructure spending must be used as required by the Recovery Act. The Recovery Act includes a number of specific requirements for highway infrastructure spending. First, the states are required to ensure that 50 percent of apportioned Recovery Act funds are obligated within 120 days of apportionment (before June 30, 2009) and that the remaining apportioned funds are obligated within 1 year (by February 17, 2010). The 50 percent rule applies only to funds apportioned to the state and not to the 30 percent of funds required by the Recovery Act to be suballocated, primarily based on population, for metropolitan, regional, and local use. The Secretary of Transportation is to withdraw and redistribute to other states any amount that is not obligated within these time frames. In complying with the requirement to obligate 50 percent of apportioned Recovery Act funds before June 30, Iowa selected “shovel-ready” projects, such as bridge replacements and highway resurfacing, which could be initiated and completed quickly. As of June 25, 2009, 89.3 percent of the \$251 million that the FHWA has determined is subject to the 50 percent rule for the 120-day redistribution has been obligated. Some projects, such as the resurfacing of Route B30 outside Mason City, took precedence over other planned transportation projects because state and local transportation officials looked to find projects to meet the Recovery Act requirements.¹⁴ Iowa officials estimate that all of its projects will be completed within 3 years.

¹⁴As a part of our work, we selected two projects for review—(1) a \$1 million project, funded with \$850,000 of Recovery Act funds, near Mason City to resurface 4.5 miles of Route B30, and (2) a \$15 million project in Clarke County to restructure 9.5 miles of Interstate 35—one locally administered and one state-administered project each located in an economically distressed area.

Second, the Recovery Act requires states to give priority to projects that can be completed within 3 years and to projects located in economically distressed areas. Economically distressed areas are defined by the Public Works and Economic Development Act of 1965, as amended. Iowa Department of Transportation officials stated that they gave priority to awarding contracts for projects located in economically distressed areas. As of June 22, 2009, the state reported to the FHWA that 64 percent of Recovery Act funds had been obligated for projects located in economically distressed areas.¹⁵ Specifically, \$174 million had been obligated for 57 projects in 31 of the 44 economically distressed counties and \$99 million had been obligated for 79 projects in other counties.

Third, the Recovery Act required the governor of each state to certify that the state 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 must identify the amount of funds the state planned to expend from state sources as of February 17, 2009, for the period beginning on that date and extending through September 30, 2010.¹⁶ In Iowa, the Governor certified that the state would “maintain its efforts” for transportation programs funded under the Recovery Act. However, Iowa noted in its certification that transportation spending would be influenced by the difference in the definition of the word “expend” for different covered programs; the uncertainty of the amount collected from state user fees to fund the programs; and variables (such as weather) that may affect the state’s timeline for spending Recovery Act transportation funds. On April 22, 2009, the U.S. Department of Transportation Secretary informed the states that conditional certifications were not permitted, provided additional guidance, and gave the states the option of amending their certifications by May 22, 2009. States were told how to calculate their level of effort on an expenditure basis (not an obligation basis) for the covered transportation programs. Iowa resubmitted its certification on May 22, stating that Iowa will maintain its efforts for state funding for the types of

¹⁵ Of the 99 counties in Iowa, 44 are characterized as economically distressed.

¹⁶ States that are unable to maintain their planned levels of effort will be prohibited from benefiting from the redistribution of obligation authority that will occur after August 1 for fiscal year 2011. As part of the federal-aid highway program, the FHWA assesses the ability of states to have their 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.

projects funded under the Recovery Act. To calculate its maintenance of effort, Iowa projected cash flows based on historical data of transportation expenditures. According to U.S. Department of Transportation officials, the department is reviewing Iowa’s resubmitted certification letter and has concluded that the form of the certification is consistent with the additional guidance. The department is currently evaluating whether the state’s method of calculating the amounts they planned to expend for the covered programs is in compliance with U.S. Department of Transportation guidance.

To monitor the appropriate use of Recovery Act funds to construct highway projects as planned, an Iowa transportation official said that the department specifies detailed procedures for the administration and inspection of work performed. According to officials, the department has contract documents, specifications, special provisions, materials certifications of various kinds, and several hundred construction inspectors, materials inspectors, technicians, engineers, and project auditors in place to review, measure, and accept contract work. Each item of work includes a method of measurement and basis of payment, as well as various associated construction and materials specifications.

Iowa Has Disbursed the First Round of Education Funds, and School Districts and Area Education Agencies Are Developing Spending Plans

- ✓ **U.S. Department of Education—SFSF Education Stabilization Funds and Formula Grants**
 - The U.S. Department of Education allocated to Iowa about \$472 million in SFSF funds, of which about \$386 million is for education stabilization. As of June 30, 2009, the Iowa Department of Education had disbursed \$40 million in SFSF education stabilization funds to school districts.
 - The Iowa Department of Education was allocated about \$51 million for ESEA Title I, and as of June 30, 2009, it had disbursed about \$8 million in Title I, Part A Recovery Act funds to school districts.
 - The Iowa Department of Education was allocated about \$126 million for IDEA, Part B. As of June 30, 2009, it had disbursed about \$15 million in IDEA, Part B Recovery Act funds to school districts, and about \$11 million to area education agencies (AEA).

The Recovery Act provides approximately \$564.1 million in education funds to Iowa through three Department of Education programs: (1) SFSF education stabilization funds; (2) ESEA Title I, Part A; and (3) IDEA, Part B. The Iowa Department of Education disbursed the first of these funds in June 2009 and plans to disburse the majority of the remaining funds in fiscal year 2010. Specifically, in fiscal years 2009 and 2010, the Iowa

Department of Education plans to disburse most of the SFSF education stabilization funds to school districts, more than 80 percent of ESEA Title I, Part A funds to school districts, and 60 percent of IDEA, Part B funds to school districts and AEAs.¹⁷ Each of these programs has its unique characteristics and objectives:

- **SFSF:** The Recovery Act created the SFSF to be administered by the U.S. Department of Education (Education). SFSF provides funds to states to help avoid reductions in education and other essential public services. The state must allocate 81.8 percent of its SFSF funds to support education (education stabilization funds) and must use the remaining 18.2 percent for public safety and other government services, which may include education (government services funds). To receive its initial award of SFSF funding, each state must submit an application to Education that assures that the state will (1) meet maintenance-of-effort requirements (or it will be able to comply with waiver provisions) and (2) implement strategies to meet certain educational requirements, including increasing teacher effectiveness, addressing inequities in the distribution of highly qualified teachers, and improving the quality of state academic standards and assessments. Furthermore, the state's application must contain baseline data that demonstrate the state's current status in each of the assurances. After maintaining support for education at fiscal year 2006 levels, the state must use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to school districts or public institutions of higher education. When distributing these funds to school districts, the state must use its primary education funding formula but can maintain discretion in how funds are allocated to public institutions of higher education. In general, school districts maintain broad discretion in how they can use stabilization funds, but states have some ability to direct institutions of higher education in how to use these funds. The Iowa Department of Education was allocated about \$386.4 million in SFSF funds for education stabilization. As of June 30, 2009, Iowa had received \$316.5 million of its total \$472.3 million SFSF allocation—\$258.9 million for education stabilization and \$57.6 million for government services. On June 15, 2009, Iowa disbursed \$40 million in SFSF education stabilization funds to school districts.

¹⁷Iowa's 10 regional AEAs, which were established by the Iowa Legislature in 1974 to provide equitable and economical educational opportunities for Iowa's children, partner with public and some private schools to provide education and instructional support services.

Iowa's Department of Education plans to disburse SFSF education stabilization funds in regular state aid payments to districts. The first \$40 million disbursement is intended to make up for a \$40 million reduction in fiscal year 2009 state education aid passed by the Iowa General Assembly in April 2009 because of a reduction in state revenues. (In December 2008, the Iowa state budget was reduced by 1.5 percent, resulting in a \$31.9 million reduction in funds to school districts for the remainder of fiscal year 2009.) The Iowa Department of Education estimates disbursements to school districts in fiscal year 2010 will total about \$217.7 million.

- **ESEA Title I, Part A:** The Recovery Act provided \$10 billion in additional funds to help school districts educate disadvantaged youth under ESEA Title I, Part A. The Recovery Act requires these additional funds to be distributed through states to school districts using existing federal funding formulas. These formulas are based on factors such as the concentration of students from families living in poverty. In using the funds, school districts must comply with current statutory and regulatory requirements and must obligate 85 percent of its 2009 funds by September 30, 2010, unless granted a waiver, and all of these funds by September 30, 2011. Iowa's Department of Education is advising school districts to use the funds in ways that will build their long-term capacity to serve disadvantaged youth by, for example, providing professional development to teachers. Education allocated the first half of the states' ESEA Title I, Part A funds on April 1, 2009. Iowa was allocated about \$25.7 million, or one-half of its estimated \$51.5 million total allocation.

Iowa's Department of Education plans to disburse ESEA Title I, Part A Recovery Act funds to school districts in six equal payments—one in fiscal year 2009, four in fiscal year 2010, and one in fiscal year 2011. It made its first disbursement of about \$8 million in Title I funds to school districts on June 2, 2009.

- **IDEA, Part B:** The Recovery Act provided supplemental funding for programs authorized by IDEA, the major federal statute that supports special education and related services for infants, toddlers, children, and youth with disabilities. IDEA, Part B provides funding to ensure preschool and school-aged children with disabilities have access to free and appropriate public education. IDEA, Part B funds are authorized to states through two grants—Part B preschool age and Part B school age. States were not required to submit an application to Education to receive initial Recovery Act funding for IDEA, Part B funds (50 percent of the total IDEA funding provided in the Recovery

Act) but are required to use funds in accordance with IDEA statutory and regulatory requirements. States will receive the remaining 50 percent by September 30, 2009, after submitting information to Education addressing how they will meet Recovery Act accountability and reporting requirements. Education allocated the first half of states' IDEA allocations on April 1, 2009, with Iowa receiving about \$63.1 million of its total allocation of about \$126.2 million for IDEA, Part B programs. The largest share of IDEA funding is for the Part B school-aged program for children and youth. The state's initial allocation was about \$2.1 million in Part B preschool grants and \$61 million in Part B grants for school-aged children and youth.

Iowa's Department of Education plans to disburse IDEA, Part B Recovery Act funds to school districts and AEAs in five equal payments—one in fiscal year 2009, two in fiscal year 2010, and two in fiscal year 2011. The funds will be disbursed to the state's 10 AEAs. AEAs will retain 40 percent of IDEA, Part B funding for school-aged children and pass through 60 percent of the funds to school districts. AEAs will retain the entire portion of IDEA, Part B funding for preschool children. The department estimated the total allocations going to school districts and AEAs and made its first disbursement of about \$10.7 million to AEAs and about \$14.5 million to school districts on June 5, 2009.

School Districts and AEAs Have Guidance on Recovery Act Spending and Are Developing Plans for Recovery Act Education Funds

As part of our work, we met with officials of three school districts and the AEAs that support them: the Des Moines Independent Community School District (representing a midsize city), and AEA 11; the Waterloo Community School District (representing a small city) and AEA 7; and the Ottumwa Community School District (representing a remote town in a rural area) and AEA 15. We chose these school districts on the basis of their locale and on the number of schools in each district designated for improvement under ESEA Title I.¹⁸ A school that does not meet performance targets defined by the state for two consecutive years must be identified for school improvement.

¹⁸The Des Moines Independent Community School District, the largest school district in Iowa, has approximately 32,000 students and 6 high schools (which includes 1 ESEA Title I school), 10 middle schools (4 ESEA Title I), and 40 elementary schools (24 ESEA Title I). The Ottumwa Community School District, with approximately 4,500 students, has 2 high schools, 1 middle school, and 8 elementary schools (5 ESEA Title I). The Waterloo Community School District, with approximately 10,400 students, has 3 high schools, 4 middle schools (1 ESEA Title I), and 12 elementary schools (10 ESEA Title I).

Table 2 shows Recovery Act funds allocated and disbursed to each of the three school districts and three AEAs we visited by program, according to the Iowa Department of Education.

Table 2: Recovery Act Allocations and Disbursements to Three Iowa School Districts and AEAs, as of June 30, 2009

School district	Allocations and disbursements	SFSF education stabilization funds ^a	ESEA Title I, Part A	IDEA, Part B
Des Moines Independent Community School District	Allocated	\$16.9	\$6.4	\$5.1
	Disbursed	2.8	1.1	1.0
Ottumwa Community School District	Allocated	2.3	1.0	0.7
	Disbursed	0.4	0.2	0.1
Waterloo Community School District	Allocated	5.9	2.3	1.8
	Disbursed	1.0	0.4	0.4
AEA 11	Allocated	^b	^b	13.6
	Disbursed	^b	^b	2.7
AEA 15	Allocated	^b	^b	4.2
	Disbursed	^b	^b	0.8
AEA 7	Allocated	^b	^b	7.1
	Disbursed	^b	^b	1.4

Source: GAO analysis of Iowa Department of Education data.

^aAllocated funds for SFSF education stabilization are estimated and cover fiscal years 2009 through 2010 only, whereas allocated funds for ESEA Title I, Part A and IDEA, Part B are actual amounts for fiscal years 2009 through 2011.

^bAEAs do not receive SFSF education stabilization or ESEA Title I, Part A funds.

School district and AEA officials told us they were generally satisfied with the guidance they received on using Recovery Act funds. They cited written guidance on each program on the Iowa Department of Education’s Web site as a primary source for information. This guidance describes the principles of the Recovery Act, acceptable uses of funds, and reporting on the use of funds. School district officials also cited Web-based seminars and access to Iowa Department of Education staff for providing helpful guidance on the use of funds. The Iowa Department of Education also told us it is encouraging school districts to use Recovery Act funds for summer school and for building teacher capacity in order to avoid committing to unsustainable efforts after Recovery Act funding expires (known as the funding cliff). The districts and AEAs had not received guidance from the Iowa Department of Education on some issues at the time of our visits in late May, such as whether ESEA Title I, Part A funds can be used for purchasing books and how to allocate funds made available as a result of receiving IDEA, Part B Recovery Act funds for general education teachers.

While the school districts and AEAs had not yet received any Recovery Act funding at the time of our visits, officials were generally developing plans for how to spend the majority of their ESEA Title I and IDEA funds in accordance with program requirements and Recovery Act objectives. At the same time, district officials told us that such planning is not necessary to spend SFSF funds because they plan to use these funds to replace regular state aid.

- Officials from the Des Moines Independent Community School District had not identified specific uses for Recovery Act grant funds at the time of our visit. They said they do not expect to use the district's first distribution of ESEA Title I funds until fiscal year 2010.
- Waterloo Community School District officials said they are evaluating opportunities to use Recovery Act funds to implement their strategic plan and, along with AEA 7, cited professional development as a potential use of funds. Waterloo also said it is considering using part of its first distribution of ESEA Title I funds to reimburse it for expenses for professional development and instructional materials, as well as for technical licenses for instructional programs.
- The Ottumwa Community School District and AEA 15 have draft plans to use Recovery Act grant funds for programs, including teacher development and extended day and summer school activities. Ottumwa officials said the summer school activities would address the funding cliff because these programs would not require hiring additional staff. The district had also spent about \$40,000 on ESEA Title I materials and computers and planned to use at least part their first distribution of Title I funds to reimburse it for these expenditures.

Districts May Find It Difficult to Track Interest Earned on Recovery Act Funds

School districts must return to the federal government on a timely basis any interest earned on cash advances, including Recovery Act funds used for education. Iowa school districts may face challenges in tracking interest earned because they typically do not earn interest on other federal education funds. Districts typically do not earn interest on ESEA Title I and IDEA funds because they are reimbursed for expenditures rather than getting funding first. Furthermore, districts do not have experience with earning interest on SFSF funds because these are a new funding source. The state's Single Audit will be a check on districts to ensure that any interest earned is returned, according to the Iowa Department of Education. The Iowa Association of School Boards is working with school districts to address this concern.

Iowa Department of Education Will Monitor the Use of Recovery Act Funds

The Iowa Department of Education is responsible for ensuring that the funds received under the Recovery Act are spent on education programs that are directed at improving results for students, from early learning through college. In carrying out this responsibility, the department plans to monitor how the school districts and AEAs are spending Recovery Act funds. Specifically, the department will require school districts and AEAs to track and report, quarterly and annually, how they are using the funds. In turn, the department will monitor and review these reports and aggregate the statewide data for reporting to Education. Ultimately, the department will have a role in determining whether the Recovery Act funds were spent on programs and activities authorized by applicable federal statutes and regulations and on the effectiveness of the programs and activities supported by the Recovery Act education funds.

The date for the first quarterly report as well as the specific reporting requirements that the districts and AEAs must meet are still being developed. A common reporting form will be followed after the specific requirements are known. However, according to Department of Education officials, the districts and AEA's should already know that, at a minimum, they should be prepared to report by program the total amount of funds received and expended, the specific activities the funds were expended on, and the number of jobs saved or created. For example, those school districts receiving ESEA Title I, Part A funds will, at a minimum, be required to report quarterly and annually the total amount of funds received and expended on programs the districts implemented to educate disadvantaged youth. Similarly, those school districts and AEAs receiving IDEA, Part B funding will be required to report the amount of Recovery Act funding that was used to support special education services for children with disabilities.

Iowa Is Preparing to Spend Funds for Home Weatherization

✓ DOE—Weatherization Assistance Program

- Iowa was provided about \$8.1 million in an initial release of funds—or about 10 percent of the state’s total award of \$81 million—on March 27, 2009, by DOE’s Office of Energy Efficiency and Renewable Energy.
- To receive the first 10 percent of funds, states were required to submit an application. To receive the next 40 percent of funds, states were required to submit a plan by May 12, 2009.
- Iowa submitted its application on March 18, 2009, and its plan on May 11, 2009.

The Recovery Act appropriated \$5 billion for the Weatherization Assistance Program, administered by DOE through each of the states and the District of Columbia. This funding is a significant addition to the annual appropriations for the weatherization program that have been about \$225 million per year in recent years. The program is designed to reduce the utility bills of low-income households by making long-term energy efficiency improvements to homes by, for example, installing insulation, sealing leaks around doors and windows, or modernizing heating equipment and air circulating fans. During the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. According to DOE, by reducing the utility bills of low-income households instead of offering aid, the Weatherization Assistance Program reduces their dependency by allowing these funds to be spent on more pressing family needs.

DOE allocates weatherization funds among the states and the District of Columbia, using a formula based on low-income households, climate conditions, and residential energy expenditures by low-income households. DOE required each state to submit an application as a basis for providing the first 10 percent of Recovery Act allocation. DOE will provide the next 40 percent of funds to a state once the department has approved its state plan, which outlines, among other things, its plans for using the weatherization funds and for monitoring and measuring performance. DOE plans to release the final 50 percent of the funding to each state based on the department’s progress reviews examining each state’s performance in spending its first 50 percent of the funds and the state’s compliance with the Recovery Act’s reporting and other requirements.

DOE allocated \$80.8 million to Iowa for the Recovery Act Weatherization Assistance Program for 3 years. Iowa’s Department of Human Rights, Division of Community Action Agencies, is responsible for administering

the program. The division submitted its application for funding on March 18, 2009, and its weatherization state plan and application on May 11, 2009.

On March 27, 2009, DOE provided the initial 10 percent allocation (about \$8.1 million) to Iowa for the Weatherization Assistance Program. Officials from Iowa's Division of Community Action Agencies said that they received guidance from DOE prohibiting the use of the initial 10 percent of funds for weatherizing homes. On June 9, 2009, DOE issued revised guidance that allowed states to use all Recovery Act funds provided under this program to pay for weatherization projects. Iowa officials said they were aware of the new guidance but decided to not to make any changes in funding because DOE had not provided guidance on how to spend Recovery Act funds in compliance with the Davis-Bacon Act. Iowa obligated at least \$5 million by June 30, 2009, for 18 contracts to community action groups for "ramp up" activities—training crews, evaluators and contractors, and purchasing vehicles.

As of June 30, 2009, DOE has not approved the state's plan. DOE has provided guidance and fiscal information to the state, and Iowa's Division of Community Action Agencies has obtained information on grant terms and conditions from a separate federal Web site. Division officials said they had not received any guidance on the Davis-Bacon Act, however, and expressed concern about how to spend the next allocation of Recovery Act funds in accordance with those requirements.¹⁹

As outlined in the Division of Community Action Agencies' Recovery Act weatherization plan submitted to DOE for review and approval, the division's goals include using Recovery Act funds to weatherize an additional 7,196 homes; employ 140 additional energy auditors, crew workers, and office staff; and spend about \$1.3 million on equipment and \$2.1 million on vehicles. Of the total \$80.8 million that the state is expected to receive, the planned allocation is \$62.6 million for weatherization; \$11.2 million for training new contractors, crew workers, inspectors, evaluators, and other critical personnel; and \$7 million for anticipated future administrative and other expenses, such as additional staff or equipment.

¹⁹The Recovery Act requires all laborers and mechanics employed by contractors and subcontractors on Recovery Act projects to be paid at least the prevailing wages as determined under the Davis-Bacon Act. Recovery Act, div. A, title XVI, § 1606. Under the Davis-Bacon Act, the Department of Labor determines the prevailing wage for projects of a similar character in the locality. 40 U.S.C. § 3141-3148.

The Division of Community Action Agencies plans to monitor the expanded weatherization program by supplementing its current work force with additional auditors and inspectors while relying on current inspection and evaluation procedures. These procedures include determining if households are income eligible, assessing each eligible home to see what can be done to make it more energy efficient, and inspecting the home after work is completed to verify that the work was done completely and professionally.

Iowa Prepares to Disburse Law Enforcement Funds, but Some Law Enforcement Agencies May Not Apply for Funds Due to Reporting Requirements

✓ **U.S. Department of Justice—JAG**

- As of June 30, 2009, Iowa had received its full state award of about \$12 million from the Justice Department, BJA. The BJA will also award an additional \$7 million to local governments in Iowa.
- Iowa’s Office of Drug Control Policy will provide grant funds, on a competitive basis, to local and state units of government and nonprofit organizations to address priorities in such areas as law enforcement, correctional and substance abuse treatment, and prevention services.

Under the JAG program, the Department of Justice’s BJA provides federal grants to state and local governments for law enforcement and other criminal justice activities, such as crime prevention and domestic violence programs, corrections, treatment, justice information sharing initiatives, and victims’ services. Under the Recovery Act, an additional \$2 billion in grants are available to state and local governments for such activities, using the rules and structure of the existing JAG program. The level of funding is formula-based and determined by a combination of crime and population statistics. Using this formula, BJA awards 60 percent of a state’s JAG allocation directly to the state, which must, in turn, allocate a formula-based share of those funds to local governments. BJA awards the remaining 40 percent of JAG funds directly to eligible units of local government within the state.²⁰ The total JAG allocation for Iowa state and local governments under the Recovery Act is about \$18.7 million, a significant increase from the previous fiscal year 2008 allocation of about \$1.4 million.

²⁰We did not review these funds awarded directly to local governments in this report because BJA’s solicitation for local governments closed on June 17, 2009.

As of June 30, 2009, Iowa had received its full state award of about \$11.8 million and is generally moving from planning to implementation.²¹ Iowa's Office of Drug Control Policy expects to begin awarding grants competitively in July in accordance with federal guidance to address priorities set forth in Iowa's Drug Control Strategy, with special emphasis on job creation and preservation. Specifically, the office intends to use these funds to support a broad range of activities to prevent and control crime—in particular, focusing on violent crime, drug offenses, and serious offenders—and improve the criminal justice system. The office will provide most of these funds to law enforcement and other eligible recipients, such as local governments and nonprofit organizations, through a competitive award process and will provide monthly reimbursements to recipients selected by the office. The state also plans to retain 10 percent of these funds to administer the program.²² The Recovery Act requires recipients to submit a detailed list of all projects or activities for which such funds were expended or obligated within 10 days of the end of each quarter. As it does with other grant programs, the Office of Drug Control Policy plans to review recipients' financial reporting to validate the amount of expenses claimed and verify that expenses are appropriate.

The Office of Drug Control Policy is implementing a new grant management system that is to notify the office when recipients do not comply with Recovery Act reporting. Once notified, the Office of Drug Control Policy plans to contact recipients via an automated e-mail, followed by a telephone call or visit. Officials said the office may withhold reimbursements to force compliance but that such withholding is not a concern because officials could not recall an instance in which a recipient did not report as required. However, the Director of the office said that some potential recipients—small law enforcement agencies with five or fewer officers or staff—may not apply for Recovery Act funds if they believe the reporting requirements are burdensome relative to the amount of JAG funds they might receive. Alternatively, the Director also noted that some recipients may choose to apply for funds and then spend them quickly because the reporting requirement ends after the funds have been expended. Officials also said that the Office of Drug Control Policy may help recipients complete their financial reporting documentation.

²¹Because of rounding, this number does not equal 60 percent of the total JAG award.

²²A state administering agency may use up to 10 percent of the state award, including up to 10 percent of any accrued interest, for costs associated with administering JAG funds.

Public Housing Agencies in Iowa Are Planning for and Funding Projects with Recovery Act Funds

✓ HUD—Public Housing Capital Fund

- HUD obligated about \$8 million to Iowa public housing agencies for the Recovery Act Formula Grant under the Public Housing Capital Fund (PHCF) for modernization and improvement of public housing units.
- As of June 20, 2009, three of the four local public housing agencies we reviewed in Iowa were beginning to obligate Recovery Act Formula Grant Funds for public housing projects, and two of the four had drawn down about \$37,000, or about 1.6 percent of the total award for all four agencies.

The Public Housing Capital Fund provides formula-based grant funds directly to public housing agencies to improve the physical condition of their properties; for the development, financing, and modernization of public housing developments; and for management improvements.²³ The Recovery Act requires HUD to allocate \$3 billion through the Public Housing Capital Fund to public housing agencies using the same formula for amounts made available in fiscal year 2008. Recovery Act requirements specify that public housing agencies must obligate funds within 1 year of the date they are made available to public housing agencies, expend at least 60 percent of funds within 2 years, and expend 100 percent of the funds within 3 years. Public housing agencies are expected to give priority to projects that can award contracts based on bids within 120 days from the date the funds are made available, as well as projects that rehabilitate vacant units, or those already under way or included in the required 5-year Capital Fund plans. HUD is also required to award \$1 billion to housing agencies based on competition for priority investments, including investments that leverage private sector funding/financing for renovations and energy conservation retrofit investments. On May 7, 2009, HUD issued its Notice of Funding Availability that describes the competitive process, criteria for applications, and time frames for submitting applications.²⁴

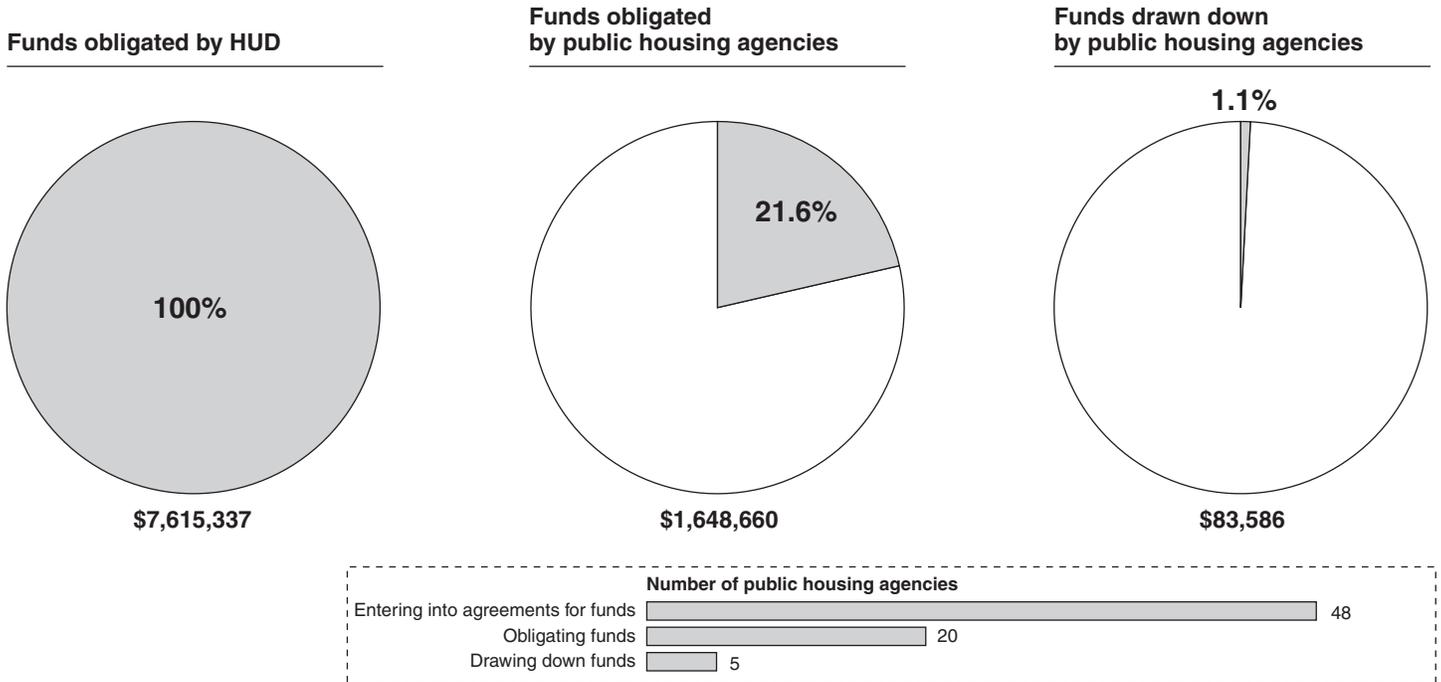
Iowa has 48 local public housing agencies that have received Recovery Act formula grant awards. In total, these public housing agencies received approximately \$7.6 million from the Public Housing Capital Fund formula grant awards. As of June 20, 2009, the state's 48 public housing agencies

²³Public housing agencies receive money directly from the federal government (HUD). Funds awarded to the public housing agencies do not pass through the state budget.

²⁴HUD released a revised Notice of Funding Availability for competitive awards on June 3, 2009. The revision included changes and clarifications to the criteria and time frames for application and to funding limits.

have obligated approximately \$1.6 million and expended approximately \$84,000 (see fig. 2).

Figure 2: Percentage of Public Housing Capital Funds Allocated by HUD That Have Been Obligated and Drawn Down in Iowa



Source: GAO analysis of HUD data.

Selected Public Housing Agency Projects Are Starting Rehabilitation Work

According to officials of the four local public housing agencies we visited, they would be able to meet the Recovery Act’s accelerated time frames for obligating and expending funds.

We selected the four local public housing agencies in Iowa to illustrate a diverse set of characteristics, such as different numbers of units, varying Recovery Act formula grant allocation and disbursement levels, and different HUD designations or nondesignations as “troubled” public

housing agencies.²⁵ The public housing agencies we visited are the Des Moines Municipal Housing Agency, Evansdale Municipal Housing Authority, North Iowa Regional Housing Authority, and Ottumwa Housing Authority. The four agencies received Capital Fund formula grants totaling approximately \$2.3 million. As of June 20, 2009, three of the four public housing agencies had obligated approximately \$116,000, or about 4.9 percent of the total award, and two of the four had drawn down approximately \$37,000, or about 1.6 percent of the total award.

The four public housing agencies have a total of 26 repair or rehabilitation projects involving at least 244 public housing units that have or will use formula grant funds under the Recovery Act formula grant. Some projects involve relatively simple tasks, such as reroofing buildings, while other projects involve more comprehensive work, such as wholesale renovations of buildings and individual units. Public housing agency officials stated that they will begin work on many of the Recovery Act projects by June 2009. Indeed, the Ottumwa Housing Authority had already completed several projects by the end of April 2009, and the other three public housing agencies are scheduled to complete many of their projects by July 2010. Table 3 describes the four public housing agencies' plans for using Recovery Act formula grant funds.

²⁵HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and 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.

Table 3: Use of Recovery Act Formula Grant Funds by Iowa Public Housing Agencies

Public housing agency	Number of projects	Number of units to be repaired or rehabilitated	Specific work to be done	Public housing agencies' basis for project selection and prioritization	Methods to review contracted work
Des Moines Municipal Housing Agency	1	50	Replacing carpet, doors, countertops, and windows in individual units and common areas; reroofing segments of a public housing building; renovating air-conditioning and ventilation systems; abating asbestos; and repaving parking lots	Inclusion of projects in the public housing agency's 5-year plan, presence of vacant units, and public housing agency designation of need, and prioritization of awarding contracts within 120 days of the receipt of funds	The project architect and public housing agency staff are to conduct on-site inspections of work performed and approve payment applications from contractors before funds are expended.
Evansdale Municipal Housing Authority	13	22	Installing new ceiling lights, carpeting and vinyl floors in individual units, re-roofing duplexes and storage sheds, and installing new water heaters	Inclusion of projects in the public housing agency's 5-year plan, previously determined need by the public housing agency, and prioritization of awarding contracts within 120 days of the receipt of funds	The public housing agency's Executive Director and City Inspector are to conduct on-site visits to verify that work meets specifications before paying the contractor.
North Iowa Regional Housing Authority	5	30	Reroofing duplexes and repairing and replacing parking lots and sidewalks	Inclusion of projects in the public housing agency's 5-year plan, public housing agency's determined need to repair units that may fail HUD inspections, and prioritization of awarding contracts within 120 days of the receipt of funds	The public housing agency Executive Director and maintenance staff are to conduct on-site visits to verify work progress. A representative of the architect responsible for the project also is to conduct weekly site visits. Public housing agency officials are to conduct final inspections of contracted work and not make final payments until a final list of work is verified as complete.
Ottumwa Housing Authority	7	142	Reroofing buildings, repairing sidewalks and curbs, replacing water plumbing systems, and repairing and replacing segments of sewer systems	Inclusion of projects in the public housing agency's 5-year plan, projects to be completed quickly, creation of new jobs from the projects, and prioritization of awarding contracts within 120 days of the receipt of funds	The architect or engineer responsible for project oversight and public housing agency officials are to conduct periodic site visits. Public housing agency officials also are to perform a final check of the contracted work before payments to contractors are completed.

Source: GAO analysis of selected Iowa public housing agencies' data.

As table 3 shows, the four public housing agencies selected projects on the basis of various factors, such as the projects' inclusion in the public housing agency's 5-year plans, which identified immediate needs. For example, officials from the North Iowa Regional Housing Authority said their agency's immediate need was to repair units that could fail HUD inspections. Another factor for selecting projects was whether contracts could be awarded within 120 days of the date funds were made available. For example, an official from the Evansdale Municipal Housing Authority said that his agency awarded contracts for reroofing projects shortly after receiving Recovery Act funds. The Des Moines Municipal Housing Agency chose to renovate one project—Southview Manor, a 50-unit facility for the elderly built in 1977. The Des Moines Public Housing Board approved the project's contract on May 20, 2009, and housing officials said that they expected the project to start around June 15, 2009, and be completed by March 15, 2010. Officials were also concerned about the high number of vacant units at the facility in relationship to the total number of units available for rent. The total cost of the project is approximately \$1.9 million; Recovery Act funds will pay for about \$1.5 million of the project costs, while the Des Moines Municipal Housing Agency will cover the remaining costs. Officials also noted that the main contractor and subcontractors for the project are based in the Des Moines area.

Selected Public Housing Agencies Report They Can Respond to Special Provisions of Recovery Act Funds

The four Iowa public housing agencies we visited report they can respond to special provisions of the Recovery Act, such as adhering to Davis-Bacon requirements regarding pay and benefits and procuring American materials:

- Three of the four public housing agencies did not have concerns about adhering to Recovery Act requirements regarding the Davis-Bacon Act. However, officials from the North Iowa Regional Housing Authority said it was burdensome to adhere to such requirements because agency staff had to interview the workers under contract about their pay and benefits. Officials also said that small contractors in their jurisdiction could have difficulty understanding the paperwork required for the Davis-Bacon Act.
- Officials at all four public housing agencies said they had no difficulty complying with the procurement requirements and the Buy American

provision of the Recovery Act.²⁶ Although not a requirement of the Recovery Act, officials said they will be using local contractors and subcontractors for capital projects funded by the act. Officials from the Ottumwa Housing Authority said they needed to solicit bidders from outside the Ottumwa area, such as Des Moines, to complete plumbing and roof replacement projects because Ottumwa is relatively rural and does not have a pool of contractors from which to solicit three competitive bids.

Officials from three of the four public housing agencies said that although they had not received updated HUD guidance on the content of required quarterly reports, program implementation has continued. They did express some other concerns. Two public housing agencies mentioned that justifying administrative expenses as part of the Recovery Act reporting requirements was burdensome. Officials from the Ottumwa Housing Authority, for example, said they will not use any Recovery Act funds to cover administrative expenses because the use of these funds would have required the authority to modify its payroll accounting system. In addition, two public housing agencies reported difficulty using HUD's Electronic Line of Credit and Control System to draw down funds but were ultimately successful. For example, officials from the North Iowa Regional Housing Authority said they had difficulty obtaining the necessary certifications before being allowed to draw down funds from the system.

Selected Public Housing Agencies Are Tracking and Safeguarding Funds within Existing Systems

The four Iowa public housing agencies are using existing processes to track and safeguard funds and modifying them where appropriate. For instance, officials from the Des Moines Municipal Housing Agency said they are establishing a separate accounting code for Recovery Act funds in their current accounting system, and officials from the North Iowa Regional Housing Authority said they are separating funds for various projects in their accounting system to properly track Recovery Act funds.

Further, all of the public housing authorities have established various methods to review contracted work funded by the Recovery Act. For

²⁶The Buy American provision of the Recovery Act prohibits, with certain exceptions, the use 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, title XVI, § 1605.

instance, officials at the Des Moines Municipal Housing Agency said it requires both a project architect and agency staff to conduct on-site inspections of work performed and jointly approve payment applications from contractors before the agency expends funds for projects. Similarly, officials at the North Iowa Regional Housing Authority said they are to conduct final inspections of contracted work for projects, and the authority will not make final payments to contractors for a project until it verifies that contractors completed a final list of tasks for the project.

In addition, all of the public housing agencies undergo independent audits, and only the Des Moines Municipal Housing Agency reported one material weakness from a recent audit. This finding concerned financial reporting that was incorrect because of problems in converting data into a new accounting system. Public housing agencies officials said, however, that the issue has already been addressed and would not affect the separation of Recovery Act funds from other HUD funds received.

Finally, one of the four public housing agencies identified an additional challenge in segregating specific duties, as good internal controls require. Officials from the North Iowa Regional Housing Authority said it has a small number of the staff working for the authority, which makes segregation of duties difficult. However, officials noted that internal controls are preserved because invoices for payment are prepared by the financial Director and subsequently reviewed by the Executive Director and board members for approval.

Iowa Will Use Existing Safeguards and Controls with Enhancements for Recovery Act Programs, and It Is Considering Ways to Show Recovery Act Spending by Localities

Several Iowa state entities are responsible for monitoring, tracking, and overseeing financial expenditures, including many state agencies with internal audit groups that focus on programmatic and financial issues. In addition, Iowa has taken specific actions to identify Recovery Act funds in its accounting systems and is considering ways to show Recovery Act funds received directly by localities.

Iowa's State Accounting Office, State Agencies, and the Iowa State Auditor Are to Monitor State's Financial Activities and Recovery Act Funds

Three state entities monitor, track, and oversee financial entities: the Iowa State Accounting Enterprise, which collects and reports state financial information and processes financial transactions; the state program agencies, which establish controls and monitor transactions in their agencies; and the State Auditor, which audits state and local entities, such as counties, cities, and school districts and provides guidelines to public accounting firms that perform such audits.

The State Accounting Enterprise enters into interagency cooperative agreements with agency officials to document each agency's responsibility to perform expenditure preaudits and comply with the State Accounting Enterprise accounting manual. The cooperative agreement requires that each agency establish procedures to ensure that all transactions are reviewed for compliance with laws and regulations and supported by appropriate documentation. To provide additional oversight over Recovery Act funds, state accounting officials informed us that they plan to reconcile Recovery Act funds received to expenditures for each program on a monthly basis and initiate audits of departments if they notice a pattern of errors. State accounting officials said they assess risk by collaborating with state audit and department officials about transaction and program problems and risks as they are identified.

State program agencies, such as the Department of Transportation, are responsible for establishing internal controls and procedures to ensure that their agencies spend funds as intended by law. These agencies are charged with establishing processes for the preaudit of expenditures,

ensuring appropriate documentation, and reviewing transactions for compliance with laws and regulations.

For example, the Iowa Department of Economic Development will monitor its Recovery Act funds by using systems adopted for tracking federal disaster recovery funds, including systems that HUD uses to monitor and report on funding spent to recover from natural disasters. This department plans to put in place procedures for working with the State Auditor to leverage oversight of Recovery Act funds. Similar procedures have been established to oversee funding the state expects to receive to recover from disastrous floods in 2008. The department expects a twentyfold increase in Community Development Block Grants in 2009 to help the recovery effort from these floods.

The Office of the State Auditor is in the final stages of updating its 2009 audit plan for risk assessment to reflect the increased risk associated with Recovery Act funding. State audit officials told us that although their appropriation was recently reduced by 27 percent, this reduction will not affect their ability to oversee Recovery Act funds.

As an added measure to help ensure that Iowa does not misuse funds provided through the Recovery Act, the Governor created the Iowa Accountability and Transparency Board (Iowa Board). The Iowa Board has several purposes: ensure that Iowa meets or exceeds the accountability and transparency requirements of the Recovery Act; monitor Iowa's use of Recovery Act funds to prevent fraud, waste, and abuse; and make recommendations to the Governor, as needed, to ensure that best practices are implemented. The Iowa Board plans to assess and report on existing state practices to prevent waste, fraud, and abuse of Recovery Act funds by (1) reviewing Single Audit reports for all state agencies, (2) implementing and reviewing risk profile surveys for all agencies, and (3) determining risk levels for individual agencies. For example, the Iowa Board plans to conduct an internal control evaluation and risk survey to assess potential risks in implementing Recovery Act programs, such as those involving the capacities of staff to perform necessary work and the systems and processes used to monitor Recovery Act expenditures. The board has established a set of principles to ensure the fairness, effectiveness, ethicality, and transparency of its decisions and use of Recovery Act funds. For example, to ensure fairness, the board must disclose the selection criteria to award Recovery Act funds. To ensure effectiveness, it must use Recovery Act funds to maximize the public benefit by providing funds to individuals and communities most

likely to reinvest in the economy and programs and projects that are expected to create or retain jobs.

Iowa Has Modified Its Accounting Systems to Track Recovery Act Funds and Will Rely on Reports from Those Entities That Are Not Tracked by Its Systems

Iowa has modified its accounting system to track and reconcile Recovery Act funds for all state agencies. Specifically, state accounting officials have developed unique accounting codes to track Recovery Act funds and have trained state agencies' accounting officials in the use of the new codes. However, the state does not have the mechanisms to track Recovery Act funds received by its Department of Transportation and Board of Regents at the same level of detail as other state agencies. Furthermore, the centralized accounting system does not include some Recovery Act funds received directly by the Iowa Finance Authority and the Department of Natural Resources. State officials said they have plans to track Recovery Act funding to these agencies using the "dashboard" feature located on the state's Web site—a user-friendly search capability that will provide detailed information on how and where Recovery Act funds are spent.

The Department of Transportation and Board of Regents plan to provide the state with summary information on Recovery Act funding while tracking detailed information on these funds in their agency systems. Iowa transportation officials said the agency is establishing separate accounting codes to track Recovery Act funds by project. State accounting officials told us they are coordinating with the Board of Regents, so that the board will be able to report summary Recovery Act funding information provided to the state's universities and special schools into the state's centralized accounting system or, in some cases, directly into the Recovery Act dashboard.

Iowa also does not track Recovery Act funds received directly by cities, counties, and local governments. At the local level, some agencies can track these funds, while others are developing guidance to require such tracking, according to state officials. Although local governing authorities are not required to report through the state, the Iowa Department of Management is in discussions with these entities to report Recovery Act spending on the dashboard located on the state's Web site. Accounting officials told us they are concerned about not being able to satisfy requirements that they report Recovery Act funds received directly by cities, counties, local governments, and other entities. State accounting officials told us they are working with all of these entities to establish procedures for financial oversight.

Iowa Single Audit Reports Play an Important Role in Identifying and Correcting Financial Problems

Iowa's annual Single Audit is one of the key tools used to identify and correct weaknesses in Iowa's financial management system. Recent annual audits have reported few weaknesses. Iowa's fiscal year 2008 audit report did not identify any material weaknesses, and its fiscal year 2007 audit report found one material weakness that has been corrected. According to Iowa Department of Education officials, the Single Audit report has proven to be an effective system for identifying and correcting problems; however, state accounting officials and the Iowa Departments of Education and Transportation do not use the report to assess internal control risks. Iowa accounting officials stated they do not use the report because it is released several months after auditors review transactions and procedures.

Because of the 27 percent reduction to the Office of the State Auditor's appropriation,²⁷ and the resulting reduction in resources available to audit certain state agencies, state audit officials expect that the state will likely receive a qualified opinion on the State of Iowa Comprehensive Annual Financial Report and are continuing to consider the impact on the opinion on the state's Single Audit.

Some State Agencies and Localities Are Relying on Existing Performance Measures but Await Federal Guidance to Clarify How to Assess Recovery Act Results

While awaiting federal guidance on a consistent approach to determining the number of jobs created and retained through Recovery Act funds, Iowa state agencies continue to consider how to measure results. According to Iowa's Department of Management, once it receives federal guidance on how to assess the impact of Recovery Act funding, it plans to disseminate the information across state agencies. It intends to measure the impact of Recovery Act funds through the state's Recovery Act Web site and current tracking software. According to a Legislative Services Agency official, the agency has offered to work with the Department of Management to create outcome measures for the Recovery Act and report the results. Additionally, the Iowa Department of Economic Development has already established output and outcome measures for the Neighborhood Stabilization Program.

Some state agencies told us they were collecting data that could be used to measure results of the Recovery Act. For example, the Iowa Department of Transportation tracks the number of worker hours by highway project

²⁷The net effect of this reduction is unknown because of potential reimbursement from some audited entities.

on the basis of contractor reports. An Iowa transportation official said the state reports this information to the U.S. Department of Transportation, which may use it to calculate the number of jobs created. Furthermore, officials from the Des Moines and Ottumwa public housing agencies said they planned to use information reported to them by contractors under the Davis-Bacon Act to calculate the number of jobs created from the use of Recovery Act funds. In general, as discussed earlier, Recovery Act funds allowed state agencies to avoid program cuts, mandatory layoffs, and furloughs, in addition to balancing the fiscal year 2009 budget. For example, according to a senior budget official, Iowa's fiscal year 2010 budget includes SFSF funds that will be used to avoid laying off teachers, among other purposes.

Some local agencies also have plans for how to track and measure results other than jobs created and saved. For example, officials from the Des Moines Municipal Housing Agency said they will measure the effects of Recovery Act spending by tracking lease rates for vacant units after renovations are completed, and officials from the North Iowa Regional Housing Authority said they will measure results by confirming the completion of renovations in public housing facilities. As of the end of April 2009, the Ottumwa Housing Authority had completed several projects using Recovery Act funds totaling \$28,798. Iowa Department of Transportation officials told us they selected "shovel-ready" projects, such as bridge replacements and highway resurfacing, that could be completed quickly, in order to comply with the requirement to obligate 50 percent of Recovery Act funds for highway infrastructure before June 30, 2009, and to give priority to work that can be completed within 3 years. The Ottumwa Community School District spent about \$40,000 on Title I materials and computers and planned to use at least part of their first allocation of Title I funds to reimburse the district for these expenditures.

Some local agencies have expressed specific concerns about how to calculate and report results. For example, the school districts and AEAs we visited said they are waiting for guidance on how to measure jobs created or retained, although they believe the Recovery Act education funds have saved jobs.²⁸ In April 2009, the Iowa Legislature had to reduce the state budget by \$40 million, and it took this reduction from the

²⁸ After soliciting responses from a broad array of stakeholders, OMB issued additional implementing guidance for recipient reporting on June 22, 2009. See OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*.

education account and replaced it with SFSF funds. Because the \$40 million reduction came late in the state fiscal year, school districts would have faced a larger reduction in staff than if the cut had come earlier. In the Waterloo Community School District, officials are unsure about how to count the number of jobs saved. Officials in the Iowa Department of Education also expressed concern about the impact of declining enrollment in many school districts on job measurement. They noted that declining enrollments naturally lead to declines in staff, making it difficult to achieve job retention or creation goals. However, two of the three school districts we spoke with expected relatively flat or increasing enrollment, while the Des Moines Independent Community School District expects flat or decreasing enrollment over the next 2 years. The director of Iowa's Office of Drug Control Policy said that some potential recipients of JAG grant funds, such as small sheriffs' departments, might not apply for Recovery Act funds if they believe the reporting requirements are burdensome in relation to the amount of JAG funds they may receive. Many Iowa law enforcement offices are small and do not have the resources to prepare detailed financial documents.

Officials noted the potential difficulty of measuring Recovery Act outcomes separately from other recovery initiatives, such as Iowa's I-JOBS program—which provides \$830 million in state infrastructure funding.

State Comments on This Summary

We provided the Governor of Iowa with a draft of this appendix on June 19, 2009. The Director, Iowa Office of State-Federal Relations, and the Director for Performance Results, Department of Management responded for the Governor on June 23, 2009. In general, officials agreed with our findings and conclusions. The officials also offered technical suggestions, which we have incorporated, as appropriate.

GAO Contacts

Lisa Shames, (202) 512-3841 or shamesl@gao.gov

Belva Martin, (202) 512-6806 or martinb@gao.gov

Staff Acknowledgments

In addition to the contacts named above, Thomas Cook, Assistant Director; Christine Frye, Analyst-in-Charge; James Cooksey; Daniel Egan; Ronald Maxon; Marietta Mayfield; Mark Ryan; and Carol Herrnstadt Shulman made key contributions to this report.