

September 2009

RECOVERY ACT

Funds Continue to
Provide Fiscal Relief
to States and
Localities, While
Accountability and
Reporting Challenges
Need to Be Fully
Addressed (Iowa)



GAO

Accountability * Integrity * Reliability

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Appendix VIII: Iowa

Overview

The following summarizes our work on the third of our bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)¹ spending in Iowa. 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/>.

Our work in Iowa examined the state's actions to stabilize its budget, to report on Recovery Act results to the federal Office of Management and Budget (OMB), and to monitor controls over Recovery Act funds. We updated funding information on Recovery Act education programs. In addition, for three programs—higher education, highway infrastructure, and weatherization—we reviewed the use of Recovery Act funds; the implementation of safeguards over these funds, including those related to the procurement of goods and services; and efforts to assess results from the use of these funds. We selected these three programs because they are among the programs receiving the greatest amount of Recovery Act funds in Iowa and have recently begun to disburse or are already using significant amounts of Recovery Act funds. Specifically, Iowa institutions of higher education have received their first disbursements of Recovery Act funds, providing the opportunity to examine the use of Recovery Act funds by nonstate entities. Iowa has obligated funds for several highway infrastructure projects, providing an opportunity to review contract administration for four selected projects—two state-administered and two locally administered—located in different highway districts and counties. Finally, Iowa's Weatherization Assistance Program has received 50 percent of its total Department of Energy (DOE) allocation, providing the opportunity to examine the use of some of these funds and review Iowa's program to weatherize more than 7,000 homes of low-income residents.

Consistent with the purposes of the Recovery Act, funds from the programs we reviewed are being directed to help Iowa and its local governments stabilize their budgets and promote economic recovery—thereby providing needed services and potentially creating and saving jobs. In addition, 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 shortfall. The following provides highlights of our review:

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

**Education Programs
Funded under the
Recovery Act**

- As of August 31, 2009, the U.S. Department of Education (Education) has made available about \$439.1 million of the total \$566.6 million in Recovery Act funds Iowa expects to use for education.
- As of August 31, 2009, Education had made available to Iowa about \$51.5 million in Recovery Act funds under Title I, Part A, of the Elementary and Secondary Education Act (ESEA) of 1965. The Iowa Department of Education had disbursed about \$16.2 million to school districts. These funds are to be used to help educate disadvantaged youth.
- As of August 31, 2009, Education had also made available to Iowa about \$126.2 million in Recovery Act funds under the Individuals with Disabilities Education Act (IDEA), Part B. The Iowa Department of Education had disbursed about \$25.2 million to school districts and area education agencies. These funds support special education and related services for children and youth with disabilities.
- As of August 31, 2009, Education had made available to Iowa about \$261.4 million of the \$388.9 million in State Fiscal Stabilization Fund (SFSF) funds for education stabilization and government services funds that Iowa plans to use for education. Iowa had disbursed about \$40 million to school districts, \$13.2 million to public universities, and \$4.3 million to community colleges. Iowa plans to use these funds to restore state aid to school districts and community colleges and to restore state appropriations to public universities. Iowa plans to use an additional \$83.5 million in SFSF government services funds for other programs, including public assistance and Medicaid.

**Institutions of Higher
Education**

- Of the \$388.9 million in SFSF funds Iowa plans to use for education, it is using approximately \$105 million to support institutions of higher education—about \$79.4 million for public universities, and about \$25.6 million for community colleges. As of August 31, 2009, public universities had received about \$13.2 million, and community colleges had received about \$4.3 million in SFSF funds. The two institutions of higher education that we visited are using Recovery Act funds to stabilize their budgets, mitigate tuition increases, and save jobs.

**Highway Infrastructure
Investment Program**

- The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned \$358 million in Recovery Act funds to Iowa. As of September 1, 2009, the federal government had

obligated \$320 million for Iowa projects,² and Iowa had been reimbursed \$91 million for work submitted for payment by highway contractors.³

- According to state transportation officials, citing Iowa’s most recent report to the U.S. House Committee on Transportation and Infrastructure, the Recovery Act funded 2,724 highway contractor employees in July 2009. Officials said that, cumulatively, Iowa’s Department of Transportation has reported to the committee that the Recovery Act has funded more than 363,000 hours of work.
- Iowa transportation officials estimated that for projects completed as of August 17, 2009, Recovery Act funding has contributed to the repair of more than 110 miles of state, county, and city roads.

Weatherization Assistance Program

- The U.S. Department of Energy (DOE) allocated \$80 million in Recovery Act funds to Iowa for the Weatherization Assistance Program. Iowa plans to use these funds to help more than 7,000 low-income families reduce their utility bills by making long-term energy-efficient improvements to their homes.
- As of August 31, 2009, Iowa had received about \$40.4 million, or 50 percent of its total DOE allocation, but had spent only about 5 percent of the funding received. No homes had been weatherized using Recovery Act funds, but Iowa has used funds to provide training and technical assistance and purchase vehicles and equipment—“ramp up” activities—that will be used when the Recovery Act Weatherization Program is fully implemented in the state.
- Home weatherization activities were on hold in Iowa until August 19 when the Department of Labor (Labor) established a prevailing wage rate for weatherization work in the state. On August 20, state officials received notification that prevailing wages had been determined and notified local agencies that they could accept bids and issue contracts for weatherization.

²This does not include obligations associated with \$0.6 million of apportioned funds that were 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.

³States request reimbursement from FHWA as they make payments to contractors working on approved projects.

While Recovery Act Funds Helped Iowa Respond to Declining Revenues, the State Is Planning for the Possibility of Additional Budget Shortfalls

Iowa's use of approximately \$710.3 million in Recovery Act funds for fiscal years 2009 and 2010 has helped stabilize its state budgets for these fiscal years by replacing some of the state's lost tax revenues.⁴ The Iowa Department of Management expects the fiscal year 2009 budget to be balanced after the Iowa Department of Management reconciles the books in September 2009, while the Legislative Services Agency expects a year-end revenue shortfall for the fiscal year 2009 budget. Senior officials from the Iowa Department of Management indicated that, in addition to the use of Recovery Act funds as allocated by the General Assembly, the Governor has the authority to transfer up to \$50 million from Iowa's Economic Emergency Fund to balance the fiscal year 2009 budget. Additionally, state officials expect a reduction in revenues for the state budget in fiscal years 2010 and 2011. The Governor also has the authority to continue controls on certain administrative expenditures and to implement across-the-board reductions in agency budgets if the Iowa Revenue Estimating Conference (REC) reduces revenue projections for fiscal year 2010 according to state officials. Further, some agencies are planning for furloughs and layoffs in fiscal year 2010.⁵ Depending on the decision by the REC, the state is also considering the need for further reductions in agencies' budgets in fiscal year 2011.

As of July 2009, state officials reported that gross General Fund receipts for fiscal year 2009 had declined more than previously expected,⁶ primarily due to a reduction in revenues collected from personal income, corporate income, and taxes on insurance premiums. Iowa had already used approximately \$166.2 million in Recovery Act funds to offset revenue losses in fiscal year 2009, thereby avoiding layoffs, program cuts, and furloughs. Nonetheless, in the Iowa Department of Management's monthly 2009 General Fund receipts memorandum, budget officials reported that year-to-date gross fiscal year 2009 receipts for Iowa's General Fund were about \$57.7 million below the March 2009 revenue projections made by the REC. Similarly, the Iowa Legislative Services Agency reported on July 1,

⁴The 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.

⁵The REC, which is comprised 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, convenes quarterly to prepare the state's estimates of tax-receipt revenues for use in preparing the annual budget.

⁶Iowa's fiscal year begins July 1 and ends June 30.

2009 that fiscal year 2009 revenues could be as much as \$161 million below projections.⁷ If additional funding is needed, state officials said that they cannot use Recovery Act funds because the General Assembly did not provide the statutory authority for the Governor to use Recovery Act funds to mitigate such shortfalls. However, senior officials from the Iowa Department of Management said that the Governor has the authority to transfer up to \$50 million from Iowa's Economic Emergency Fund to balance the state's fiscal year 2009 budget, and to continue controls on certain administrative expenditures such as association memberships and out-of-state travel. In addition, senior officials from the Iowa Department of Management said that the Governor can call a special session of the General Assembly; however, the Governor has indicated that he would not schedule a special session. Senior officials from the Iowa Department of Management expect that the fiscal year 2009 budget will be balanced when the Iowa Department of Management closes the fiscal year 2009 books, because refunds are lower than projected by the REC and the return of appropriated funds from state agencies are higher than expected due to non-program expenditure controls.

While senior officials from the Iowa Department of Management said that the state's fiscal year 2010 budget is balanced using current revenue projections from the REC, the REC could lower its estimate of revenues available for fiscal year 2010 at its next meeting, which is scheduled to occur on October 7, 2009. According to senior officials from the Iowa Department of Management, the Governor's executive authority provides various options to address any resulting projected shortfalls in the state's budget. For example, the Governor may implement across-the-board reductions in the state's General Fund appropriations through an Executive Order,⁸ increase efficiencies in programs and services, or continue current controls on certain expenditures such as out-of-state travel. Senior officials from the Iowa Department of Management said that

⁷According to state budget officials, the Governor's calculations for the gross fiscal year 2009 General Fund receipts currently do not include estimated tax refunds for taxpayers, receipts of additional federal funds, and transfers of surplus funds from agencies. Such information will not be completed by state budget officials until the state finishes processing revenues and expenses for fiscal year 2009, which should occur by the end of September 2009. According to officials from the Legislative Services Agency, the agency's calculations for fiscal year 2009 revenues include estimated tax refunds for taxpayers and monthly transfers to Iowa's school infrastructure refund account.

⁸In December 2008, because of declining revenue projections, the Governor directed an across-the-board 1.5 percent reduction in the state's General Fund appropriations.

the Governor also has the authority to call the General Assembly into a special session to address budgetary issues. Iowa plans to use approximately \$544.1 million in Recovery Act funds in fiscal year 2010 for, among other things, maintaining funding levels for existing education and health care programs.⁹ However, senior officials from the Iowa Department of Management noted that if the estimated revenues are lowered, and the Governor implements an across-the-board reduction in General Fund appropriations, some state agencies may have to begin laying off state workers during the fiscal year. Furthermore, a few state agencies are already developing contingency plans for furloughs of state employees throughout fiscal year 2010.

At the direction of the Governor, Iowa's budget director sent a letter on July 23, 2009 to state agencies requiring that they draft a "status quo" General Fund budget request for fiscal year 2011, in view of a potential decline in General Fund revenues. Each agency was requested to limit its fiscal year 2011 budget to its 2010 General Fund expenditures, after adjusting for certain one-time appropriations, such as those from Recovery Act funds. Additionally, senior officials the Iowa Department of Management suggested that agencies draft recommendations for reducing the General Fund appropriation from their fiscal year 2010 appropriation. According to senior officials from the Iowa Department of Management, agencies are required to submit their budget requests to the Governor by October 1, 2009. The Governor will then use the agencies' requests and revenue estimates from the December 2009 REC to formulate a consolidated fiscal year 2011 budget proposal for consideration by the General Assembly.

Additionally, state officials are seeking ways to improve government efficiency. For example, to make the delivery of state services more efficient, the Governor has hired a performance-review consultant to identify operational efficiencies and cost savings, such as eliminating any duplicate government services provided by different state agencies. State officials also said they planned to seek public input for identifying cost savings and to develop a Web site for the public to track state plans for streamlining government operations. Similarly, the bipartisan State Government Reorganization Commission, made up of 10 General

⁹Recovery Act funds used to maintain funding levels include, but are not limited to, Federal Medical Assistance Percentage funds (discussed in [GAO-09-1016](#)) and State Fiscal Stabilization Fund monies.

Assembly members, held its first meeting on September 9, 2009. The Commission is to consider options for reorganizing state government to improve efficiency, modernize processes, eliminate duplication, reduce costs, and increase accountability. It is also to address the expanded use of the Internet and other technology. It is scheduled to meet again on December 10, 2009.

Senior officials from the Iowa Department of Management said that Iowa does not plan to take advantage of the federal OMB's recent memorandum on recouping administrative costs related to Recovery Act activities because the General Assembly has already appropriated and prescribed the use of Recovery Act funds for fiscal years 2009 and 2010.¹⁰ Consequently, according to senior officials from the Iowa Department of Management, the Governor does not have the authority to reallocate such funds for administrative costs. Senior officials from the Iowa Department of Management added that the General Assembly had already allocated \$400,000 in the fiscal year 2010 budget for the central administration of Recovery Act funds in Iowa, and noted that state agencies are already spending most Recovery Act funds.

Iowa Is Developing a Centralized Database to Report Financial and Performance Information on the Recovery Act to OMB

Through a Recovery Act implementation working group, the Iowa Department of Management is developing a centralized database to report Recovery Act information—funds received and expended, and performance measures, such as jobs created and saved—to OMB, other federal entities, and the general public, as required by section 1512 of the Recovery Act.¹¹ However, state officials said that they need specific answers from OMB to help them report information centrally. Iowa is implementing procedures and controls in its centralized database to help ensure the completeness, accuracy, and consistency of the information it reports. In addition to the Recovery Act database, Iowa's "Results Iowa" Web site provides information about Iowa's efforts towards achieving results in areas such as workforce development, economic growth, health care, and education and may offer an additional opportunity to demonstrate results of Recovery Act funding.

¹⁰OMB, Memorandum M-09-18, *Payments to State Grantees for Administrative Costs of Recovery Activities* (May 11, 2009).

¹¹Pub. L. No. 111-5, § 1512, 123 Stat. 115, 287 (Feb. 17, 2009).

Iowa's Executive Working Group Is Collaborating with State Agencies and Localities to Create a Centralized Database for Reporting on the Recovery Act

In March 2009, Iowa established a Recovery Act implementation executive working group 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. The implementation working group comprises representatives from nearly two dozen state agencies, led by the executive working group, and assisted by groups that will focus on implementation issues such as budget and tracking, intergovernmental coordination, and communications. Officials from this group told us that they are working with Iowa agency officials to create a centralized database to collect and summarize Recovery Act information, such as funds received and expended and the number of jobs created and saved, to be reported to OMB and the general public. Iowa officials noted that their first priority is to report on funds received and expended by state agencies and then those funds received directly by localities throughout the state.

To centralize reporting on the Recovery Act, Iowa officials told us that they are developing a Web-based system that is to collect and summarize financial and performance information by state agencies and localities receiving funds through state distributions to communicate how Recovery Act funds are being used in Iowa, as well as the results of those funds. To facilitate this process, Iowa officials told us that they provided instructions to state agencies, and are building instructions into their database program on how to account for and report Recovery Act funds, among other things. Iowa officials also completed a summary of data element descriptions to help ensure the consistency of the data reported. To help ensure their readiness to report on Recovery Act funding by October 10, 2009, Iowa officials planned to perform two tests of their Recovery Act reporting system. From August 13 through 21, 2009, Iowa tested the appropriateness of the data elements and reviewed controls over Recovery Act subrecipients who have been delegated reporting responsibilities under section 1512 of the Recovery Act. The results of the first test revealed program errors, such as difficulties in uploading spreadsheet data, that Iowa officials plan to promptly correct. For the second test, to be held September 8 through 18, 2009, all agencies are required to report Recovery Act funds received in the state's reporting database.

In addition, Iowa officials told us that they have created a working group to develop a consistent methodology to measure jobs created and saved from Recovery Act funds as well as from Iowa's I-JOBS program—a state program to invest in infrastructure—and federal flood recovery. Consistently measuring jobs created and saved can help provide greater transparency of the benefits of these programs.

Iowa Is Developing Internal Controls to Help Ensure Accurate Reporting of Recovery Act Results

According to officials with the Iowa executive working group, they are developing internal controls to help ensure that information reported to OMB and the general public from Iowa's centralized reporting database is accurate. For example, all Recovery Act funds are identified by unique codes in state agencies' accounting systems. In addition, data validation processes are being built into the database to help reviewers identify and correct any inaccurate data. As an added measure, the executive working group plans to reconcile Recovery Act funds received against expenditures using reports generated from the Recovery Act reporting database as well as Iowa's existing accounting system. The executive working group also plans to incorporate a tracking function into the database so the state can identify Recovery Act recipients and subrecipients and notify appropriate officials if reporting time frames are not met.

As a way to help improve the completeness, accuracy, and consistency of the information, state agency and locality officials will be required to certify their approval of their agency's Recovery Act Section 1512 information prior to submission. For example, Iowa transportation officials told us that it has a dedicated group that is responsible for reviewing Iowa transportation information before it is submitted. Similarly, Iowa education officials told us that they are developing policies and procedures for the Recovery Act to improve the quality of the information.

Iowa Seeks More Specific Information from OMB on Reporting the Results of the Recovery Act

Since June 22, 2009, OMB has provided guidance on the reporting requirements of the Recovery Act, including how to calculate the number of jobs created and saved. Iowa officials told us that they have asked OMB for specific guidance on the reporting requirements included in Section 1512 of the Recovery Act but as of September 11, 2009, OMB had not responded. For example, the state would like to confirm that it may use a single Dun & Bradstreet, or D-U-N-S, number because the state intends to report Section 1512 information centrally.¹² State officials are also seeking an answer on whether OMB would serve as Iowa's sponsor so that Iowa officials could access the federal Central Contractor Registration (CCR) database¹³ to help them validate that Recovery Act subrecipients are

¹²The D-U-N-S number is used by the federal government to identify business organizations.

¹³The CCR is the primary federal registrant database that collects, validates, stores, and disseminates data in support of federal agencies' acquisition missions, including agency contract and assistance awards.

registered in the CCR system, and use this information to verify whether its subrecipient data is consistent with federal data requirements.

“Results Iowa” Web Site Provides Opportunities for Iowa to Demonstrate Results of Recovery Act Funding

Iowa created the “Results Iowa” Web site, <http://www.resultsiowa.org>, to provide information about its efforts toward achieving results in areas such as workforce development, economic growth, health care, and education. Furthermore, for each state agency under the authority of the Governor, “Results Iowa” provides strategic and performance plans linking agency programs and strategies to specific performance goals, as well as performance reports detailing agencies’ progress on such goals. Additionally, “Results Iowa” allows agencies to highlight and update selected performance measures as desired. The “Results Iowa” Web site is an existing reporting mechanism that could demonstrate the effects of Recovery Act funding on agency programs and initiatives.

As a next step, Iowa could use “Results Iowa” to demonstrate how Recovery Act funding is affecting key performance measures, such as the state’s unemployment and other key economic indicators. Iowa could also modify agency documents, including strategic and performance plans and performance reports, to demonstrate how Recovery Act funding is affecting progress towards achieving agency wide performance goals, and send guidance to agencies on how to integrate the use of Recovery Act funding into performance plans. Furthermore, Iowa could integrate information from the “Results Iowa” Web site with its Economic Recovery Web site’s proposed “dashboard” feature¹⁴—a user-friendly search capability that is to provide detailed information on how and where Recovery Act funds are spent. Such efforts would enable the state to link Recovery Act spending for specific programs to statewide and agency wide performance goals, which, in turn, would allow Iowa to better demonstrate to citizens, state officials, and other policymakers how the Recovery Act is affecting Iowa’s government and economic climate. In response, state officials agreed that using “Results Iowa” to demonstrate the effect of Recovery Act funding could help to integrate this information onto Iowa’s Economic Recovery Web site. However, they acknowledged that resources were limited and not generally available to immediately modify the “Results Iowa” Web site. State officials also agreed that acknowledging the receipt of Recovery Act funds in state agency

¹⁴<http://recovery.iowa.gov> (downloaded on Sept. 9, 2009).

performance plans was important and said they would consider providing guidance to agencies to adjust their plans to reflect these funds.

Iowa's State Auditor and Iowa Accountability and Transparency Board Continue to Monitor Controls over Recovery Act Funds

The Office of the State Auditor is in the final stages of updating its 2009 audit plan. State audit officials expect to complete the audit plan shortly after the state's fiscal year 2009 accounting records are closed in September 2009. According to state audit officials, their audit plan reflects the increased risk associated with Recovery Act funding, as well as agency risk assessments submitted by agency auditors. In addition, state audit officials told us that although their appropriation was recently reduced by 30 percent, this reduction is not expected to affect their ability to oversee Recovery Act funds because of their ability to bill state agencies directly for work associated with auditing federal funds. However, this reduction to the State Auditor's appropriation will likely result in a qualified opinion on the state of Iowa comprehensive annual financial report because the Office of the State Auditor may not be able to conduct enough audit work on certain state agencies to issue an unqualified opinion.

As we reported in April and July 2009, 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. Most recently, the Iowa Board has created an Internal Control Evaluation Team (Evaluation Team) composed of representatives from Iowa's Department of Management, the Auditor's Office, and the Legislative Services Agency to perform an internal control evaluation of state agencies receiving Recovery Act funds. To assess agencies' risk levels, the evaluation team has reviewed agencies' single audit reports and risk assessment questionnaires filled out by state agency officials and has prepared a report for the Iowa Board that includes recommendations for improvement.¹⁵

¹⁵The 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 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.

The report from the Evaluation Team identified six high-priority programs from the 82 programs surveyed that the Evaluation Team expects will have some difficulty in fully complying with the accountability and transparency requirements in the Recovery Act. The six high-priority programs are as follows:¹⁶

- Office of Energy Independence—State Energy Program,
- Office of Energy Independence—Energy Efficiency and Conservation Block Grants,
- Office of Energy Independence—Energy Efficient Appliance Rebates Program,
- Department of Education—State Fiscal Stabilization Fund,
- Department of Human Rights—Weatherization Assistance Program, and
- Iowa Utilities Board—State Electricity Regulatory Assistance Grant.

The primary reasons for recommending additional technical monitoring for these programs were that they received a significant increase in funding, were newly created, or have personnel with limited experience. The Evaluation Team's Internal Controls Evaluation made three recommendations for the Iowa Board. First, all agencies receiving Recovery Act funding should receive training in internal controls and procurement from the U.S. Department of Energy Office of the Inspector General and the U.S. Department of Justice Antitrust Division. Second, each agency ranked as a high priority should implement a comprehensive accountability plan to review Recovery Act activities. Third, an internal agency team should conduct reviews of all high priority agencies to ensure that agencies are complying with the accountability plan.

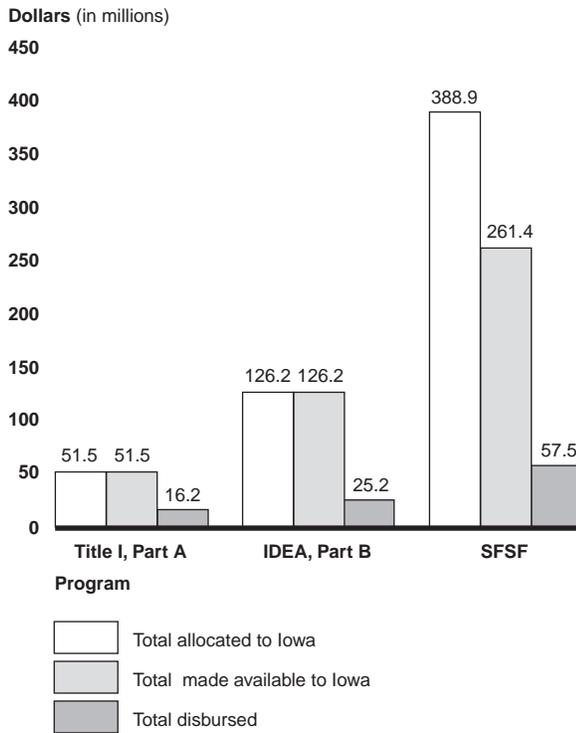
¹⁶Nine programs were not included in the risk assessment because funding had not yet been awarded or the federal guidelines have not been issued. These programs will be reviewed as awards are made or guidelines issued.

Iowa Is Disbursing Education Recovery Act Funds and Expects to Disburse Most Funds by the End of Fiscal Year 2010

Iowa will use approximately \$566.6 million in Recovery Act funds for education through three U.S. Department of Education (Education) programs: (1) Title I, Part A, of the Elementary and Secondary Education Act of 1965 (ESEA); (2) Individuals with Disabilities Education Act (IDEA), Part B; and (3) the State Fiscal Stabilization Fund (SFSF) for education stabilization and government services. The majority of this amount—about \$478.8 million—will be disbursed to school districts and institutions of higher education by the end of fiscal year 2010. As of August 31, 2009, about \$439.1 million of these funds had been made available to the Iowa Department of Education and the Department of Management, which had disbursed approximately \$98.9 million to school districts, area education agencies,¹⁷ and institutions of higher education, as seen in figure 1.

¹⁷Iowa's 10 regional area education agencies, 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.

Figure 1: Recovery Act Education Funding Allocated, Made Available, and Disbursed in Iowa, as of August 31, 2009



Source: GAO analysis of Iowa Department of Education and Board of Regents data.
 Note: In this figure, SFSF funds include only funds for education stabilization and government services that have been designated for school districts, community colleges, and public universities.

ESEA Title I, Part A. The Recovery Act provides \$10 billion nationally to help school districts educate disadvantaged youth by making additional funds available beyond those regularly allocated through 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, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, school districts are required to comply with current statutory and regulatory requirements and must obligate 85 percent of these funds by September 30, 2010.¹⁸ Education is advising school districts to use the funds in ways that will

¹⁸School districts 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.

build their long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers. Education made the first half of states' Recovery Act ESEA Title I, Part A, funding available on April 1, 2009, and announced on September 4, 2009, that it had made the second half available.

As of August 31, 2009, Education had made available to the Iowa Department of Education its estimated \$51.5 million ESEA Title I, Part A, allocation under the Recovery Act. In turn, the Iowa Department of Education had disbursed a total of \$16.2 million to school districts through two of six planned disbursements to school districts. The next disbursement to districts is planned for October 1, 2009, and the Iowa Department of Education plans to disburse the majority of its ESEA Title I, Part A, funds—or an additional \$24.3 million—before the end of the state's fiscal year 2010.

IDEA, Part B. The Recovery Act provided supplemental funding for programs authorized by IDEA, Part B, the major federal statute that supports the provisions of early intervention and special education and related services for children and youth with disabilities. IDEA, Part B, funds programs that ensure preschool and school-aged children with disabilities have access to a free and appropriate public education and is divided into two separate grants—Part B grants to states (for school-age children) and Part B preschool grants (section 619). Education made the first half of states' Recovery Act IDEA funding available to state agencies on April 1, 2009, and announced on September 4, 2009, that it had made the second half available.

As of August 31, 2009, Education had made available to the Iowa Department of Education its estimated \$126.2 million IDEA, Part B, allocation under the Recovery Act. In turn, the Iowa Department of Education had disbursed a total of about \$25.2 million to school districts and area education agencies in the first of five planned disbursements. The next disbursement to districts and area education agencies is planned for October 1, 2009, and the Iowa Department of Education plans to disburse approximately an additional 40 percent of its allocation of IDEA, Part B, funds—or an additional \$50.4 million—in state fiscal year 2010.

State Fiscal Stabilization Fund (SFSF). 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 be used to alleviate shortfalls in

state support for education to school districts and public institutions of higher education. The initial award of SFSF funding required each state to submit an application to Education that provides several assurances, including that the state will meet maintenance-of-effort requirements (or it will be able to comply with waiver provisions) and that it will implement strategies to meet certain educational requirements, such as increasing teacher effectiveness, addressing inequities in the distribution of highly qualified teachers, and improving the quality of state academic standards and assessments. In addition, states were required to make assurances concerning accountability, transparency, reporting, and compliance with certain federal laws and regulations. States must allocate 81.8 percent of their SFSF funds to support education (these funds are referred to as education stabilization funds), and 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). After maintaining state support for education at fiscal year 2006 levels, states 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, states must use their primary education funding formula, but they can determine how to allocate funds 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.

Education allocated to Iowa a total of about \$472.3 million in SFSF funds, of which about \$386.4 million is specifically for education stabilization and about \$86 million is for government services. In total, Iowa plans to use approximately \$388.9 million of SFSF funds for education. As of August 31, 2009 Iowa had disbursed a total of about \$40 million to school districts, \$13.2 million to public universities, and \$4.3 million to community colleges. Specifically:

- As of August 31, 2009, two-thirds of Iowa's SFSF education stabilization funds—or about \$258.9 million—was made available to the state. The Iowa Department of Education and the Department of Management have begun disbursing education stabilization funds. As of August 31, the Iowa Department of Education had disbursed a total of \$40 million in education stabilization funds to school districts and about \$3.9 million to community colleges. The Department of Management had disbursed about \$13.2 million to public universities. According to education officials, these funds are replacing reduced

state aid payments to districts and community colleges, and replacing lost state appropriations for public universities.

- As of August 31, all \$86 million in SFSF government services funds had been made available to Iowa. Of this amount, \$2.5 million will go to community colleges, and the Iowa Department of Education had already disbursed about \$420,000 of those funds to community colleges. Iowa plans to use the rest of the government services funds for such programs as public assistance, public safety, and Medicaid. Iowa has allocated a total of approximately \$63.4 million in government services funds for fiscal year 2010.

University and Community College Officials Said They Will Use Recovery Act Funds to Stabilize Budgets, Mitigate Tuition Increases, and Save Jobs

Iowa plans to provide approximately \$105 million of its SFSF funds to higher education. Specifically, Iowa's three public universities—Iowa State University, the University of Iowa, and the University of Northern Iowa—will share approximately \$79.4 million in SFSF education stabilization funds, and its 15 community colleges will share \$23.1 million in SFSF education stabilization funds and \$2.5 million in SFSF government services funds. Funds are being disbursed to each university and community college in 12 monthly payments, the first of which went out in July 2009. As of August 31, 2009, public universities had received about \$13.2 million, and community colleges had received \$4.3 million in SFSF funds. Iowa's public universities receive about 51 percent of their operating budgets from tuition and fees, about 43 percent from state appropriations, and the rest from other sources. The Board of Regents, which governs Iowa's public universities, divided the SFSF funds among the state's three universities in proportion to the size of each university's budget.¹⁹ The Iowa Department of Education, which oversees Iowa's community colleges, divided the community college SFSF funds among the state's 15 community colleges according to its usual state aid formula, which is based on a statutory formula. Iowa community colleges receive about 47 percent of their operating revenue from tuition, 37 percent from state aid, 5 percent from local communities, and the rest from other sources.

¹⁹The Iowa Board of Regents also governs two special schools: the Iowa Braille and Sight Saving School and the Iowa School for the Deaf. The Board of Regents allocated SFSF funds for these two special schools to put them on par with the general K-12 education system in Iowa, and allocated the remaining SFSF funds to Iowa's public universities.

We visited two institutions of higher education: Iowa State University in Ames and Southwestern Community College in Creston. We selected these institutions to include one university and one community college located in a rural area. As of August 31, 2009, these two institutions had received about 17 percent of their allocation. (See table 1 for SFSF funds allocated and disbursed.)

Table 1: Recovery Act Allocations and Disbursements to Selected Institutions of Higher Education, as of August 31, 2009

Dollars in thousands

Institution	Allocations and disbursements	SFSF education stabilization funds	SFSF government services funds
Iowa State University	Allocated	\$31,600	\$0
	Disbursed	5,270	0
Southwestern Community College	Allocated	570	60
	Disbursed	90	10

Source: GAO analysis of Iowa Department of Education and Board of Regents data.

Institutions of Higher Education Plan to Spend All SFSF Funds in Fiscal Year 2010 to Pay Salaries and Sustain Academic Services and Programs

In December 2008, to balance the state’s budget, the Governor issued an executive order for a mid-year 1.5 percent across-the-board reduction in its General Fund appropriations for the 2009 state fiscal year. As a result of this and other reductions in state funding, Iowa State University’s \$519 million fiscal year 2009 budget was reduced by about \$7.2 million, and Southwestern Community College’s \$10.2 million fiscal year 2009 budget was reduced by \$67,581. For fiscal year 2010, as state funding levels continued to decline, Iowa State University’s budget was reduced to \$502.7 million, a decrease of 3.1 percent compared with the initial fiscal year 2009 budget. Southwestern Community College’s 2010 state aid was reduced in total by about \$600,000, representing about a 6 percent reduction to its operating budget compared to fiscal year 2009.

Iowa State University and Southwestern Community College will both receive SFSF funds equal to or greater than the reduction to their 2010 state appropriations: \$31.6 million and \$630,027, respectively. In addition, according to officials at Iowa State University, appropriating legislation directed public universities to obligate or spend all SFSF funds by the end of fiscal year 2010, or return the funds to the state. Southwestern Community College plans to use all of its \$630,027 SFSF allocation in fiscal year 2010 to pay salaries and employee benefits. According to the Southwestern Community College chief financial officer, about 76 percent of the school’s budget is for salaries. Iowa State University plans to spend

about \$22.2 million, or 70 percent, of its \$31.6 million SFSF allocation, to pay salaries. Other expenses being paid for with SFSF funds include building repairs (\$4.0 million), supplies and services (\$3.6 million), and equipment (\$1.1 million).

Iowa institutions of higher education plan to use SFSF funds to sustain key educational programs and services even as enrollment increased and budgets declined. For example, Iowa State University's enrollment for the 2008-2009 school year increased by 2.5 percent over the prior year. Southwestern Community College's enrollment for the 2009-2010 school year increased by at least 7 percent over the prior year. Iowa State University attributed much of its increased enrollment to an increase in nonresident students, while Southwestern Community College attributed its increased enrollment to layoffs in the local economy and students returning to school to learn new skills. Officials from both schools said that they expect enrollment to continue to increase at least through the current academic year. Southwestern Community College is using its SFSF funds to preserve associate degree and trade programs, which are critical to students directly affected by the downturn in the economy. For example, Southwestern Community College's School of Nursing has a waiting list for enrollment, and the institution plans to use SFSF funds to hire one nursing instructor. Iowa State University used SFSF funds to hire about 10 new veterinary medicine faculty in 2009 to educate an anticipated influx of veterinary medicine students. Under an agreement with a university in another state, veterinary medicine students will attend the out-of-state university for their first 2 years after which they will transfer to Iowa State University to complete their training.

Two Institutions of Higher Education Are Tracking SFSF Funds Using Existing Systems and Methods

Both Iowa State University and Southwestern Community College have established new accounts within their existing accounting systems for SFSF education stabilization and government services funds and plan to separately track and monitor SFSF funds using existing processes and procedures. Iowa State University sends monthly reports to the Board of Regents and the Department of Management on its use of SFSF funds. Iowa State University officials said they have received guidance on the use of SFSF funds from the Iowa Board of Regents. As a matter of practice for SFSF funds, the Board of Regents will approve all university infrastructure expenditures of \$500,000 or greater. Southwestern Community College's chief financial officer said that she will prepare all reporting on the use of Recovery Act funds and maintain file copies of supporting documentation and reports submitted to the Iowa Department of Education. She said she is also responsible for assuring the accurate recording of all deposits and

payments. According to the chief financial officer, the college's accounts receivable department will deposit SFSF funds into the appropriate accounts and the payroll department will verify all payees and the amounts paid using SFSF funds.

While Higher Education Institutions Report Positive Results from Recovery Act Funds, They Plan to Improve Efficiency in Anticipation of Ongoing Fiscal Constraints

Officials at the Iowa institutions of higher education we visited told us they have not yet reported on the use and results of Recovery Act funds under Section 1512 because they are awaiting specific guidance on how to report to Iowa's centralized reporting database. In the meantime, officials told us, they have identified some savings and efficiencies from the use of these funds. The universities and community colleges report annually to the state on performance and funding. For example, community colleges provide data to the state that are published in an annual *Condition of Iowa's Community Colleges Report*—a summary of fiscal and tuition data and enrollment and graduation rates.

Iowa State University and Southwestern Community College officials also told us that SFSF funds have allowed them to save jobs, based on their own estimates. Iowa State University identified about 50 professional, scientific, and other positions for potential layoffs by the end of state fiscal year 2010. If the university determines that some layoffs are necessary, it will use SFSF funds to pay employees' salaries until the time that the layoffs become effective. The university is also using SFSF funds to pay the salaries of 210 employees that accepted an offer to retire by January 31, 2010—thereby temporarily saving these jobs according to school officials. A Southwestern Community College official estimated that SFSF funds allowed the school to save seven jobs.

SFSF funds also allowed Iowa State University and Southwestern Community College to limit tuition increases. The Board of Regents increased tuition for academic year 2009-2010 by 4.2 percent for resident undergraduate students at the three public universities, including Iowa State University. According to the Iowa Board of Regents, however, without SFSF funds, tuition might have increased by as much as 8 percent at state universities to offset the loss of state appropriations. Historically, when state budgets have declined, Iowa State University's tuition has increased significantly. For example, according to Iowa State University officials, when state budgets declined in the early 2000s, the university raised tuition and fees by 18.5 percent, followed by a 17.6 percent tuition hike in the following year. For Southwestern Community College, the result of the 2010 budget shortfall was a potential \$19 tuition increase per credit hour. (Annual tuition increases have averaged \$5.72 per credit hour

for the past 9 years.) However, SFSF funds allowed Southwestern Community College to limit the tuition increase to \$5.50 per credit hour, about a \$14 reduction for students compared to the potential increase.

SFSF funds have also provided institutions of higher education the opportunity to plan strategically for the long term by restructuring for greater efficiency and avoiding the funding cliff effect (i.e., the shortfall when Recovery Act funds are spent). Iowa State University asked each of its departments to submit plans for reducing costs by a total of \$38.8 million, an amount equal to the university's 2009 and 2010 budget cuts. Southwestern Community College also asked its departments to submit plans to reduce their budgets by 5 percent (a percentage greater than the 2009 statewide reduction, in anticipation of future budget cuts). Department plans included proposals for staff reductions and process improvements.

To reduce costs, both institutions have allowed vacant positions to remain unfilled and reduced staffing levels through attrition and some layoffs. Iowa State University also identified for layoffs 25 of about 800 professional and scientific staff, and, as discussed earlier, officials reported that 210 general services employees will retire by January 31, 2010, under the university's early retirement incentive offer. SFSF funds will be used to pay the salaries of these employees up to their retirement date. Southwestern Community College reduced the number of instructors from 48 to 43: 2 instructors left voluntarily, 2 retired, and 1 was laid off. Both Iowa State University and Southwestern Community College plan to retain or hire adjunct professors or lecturers—adjunct faculty and lecturers do not have full or permanent status and therefore are less costly. Iowa State University plans to use technology, such as adding computers or streaming video, to provide classroom instruction. Southwestern Community College reduced its printing costs by eliminating paper copies of the course catalog and student handbook—now both are available only online.

Iowa State University officials told us that they do not expect to have a funding cliff in 2010 because the university has reduced its payroll through retirements and layoffs and has reengineered education by increasing faculty workload and class size. Southwestern Community College's strategy to avoid a funding cliff includes avoiding any new long-term costs and to plan and operate under the assumption that state funds will be cut again. According to Southwestern Community College, it is important that the school budget conservatively because it is a small, rural school and therefore has fewer funding resources.

Iowa Has Awarded Most of Its Highway Recovery Act Funds, and Reports Funding over 2,700 Contractor Employees in July 2009

The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned \$358 million in Recovery Act funds to Iowa for highway construction. As of September 1, 2009, the federal government had obligated \$320 million for Iowa projects, and Iowa had been reimbursed \$91 million for work submitted for payment by highway contractors. According to state transportation officials, citing the state's most recent report to the U.S. House Committee on Transportation and Infrastructure, the Recovery Act funded 2,724 highway contractor employees in July. Officials said, cumulatively, the department has reported that more than 363,000 hours of work have been funded by the Recovery Act. In addition, transportation officials estimate that Recovery Act funding contributed to the repair of more than 110 miles of state, county, and city roads.

The Recovery Act provides funding to the states to restore, repair, and construct highways, and conduct other activities allowed under the Federal-Aid Highway Surface Transportation Program. 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 existing program requirements, which include ensuring the project meets all environmental requirements associated with the National Environmental Policy Act, paying a prevailing wage in accordance with federal Davis-Bacon requirements, complying with goals to ensure disadvantaged businesses are not discriminated against in the awarding of construction contracts, and using American-made iron and steel in accordance with Buy America 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.

To receive Recovery Act funds for highway infrastructure spending, states must meet certain requirements. For example, the states must do the following:

- Ensure that 50 percent of apportioned Recovery Act funds were obligated within 120 days of apportionment (before June 30, 2009). 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. In addition, states are required to ensure that all apportioned funds—including suballocated funds—are obligated within 1 year. The Secretary of Transportation is to withdraw and

redistribute to other states any amount that is not obligated within these time frames.

- Give priority to projects that can be completed within 3 years and to projects located in economically distressed areas.
- Certify that the state will maintain the level of spending (maintenance of effort) 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, 2010.²⁰

Iowa has met, or is in the process of meeting, these requirements, and the U.S. Department of Transportation is currently validating Iowa's maintenance-of-effort calculations—the amount of state funds Iowa planned to expend for the covered programs through September 30, 2010.

Iowa has also initiated I-JOBS, an \$830 million state-funded program to invest in infrastructure. A key component of this program is \$115 million for transportation projects across the state, including \$50 million for bridge safety, \$45 million for city streets and secondary roads, and the remainder for enhancing public transit and recreational trails. As of September 1, 55 bridge safety projects under the state's jurisdiction had been approved for I-JOBS funding in fiscal years 2010 and 2011.

Almost 90 Percent of Highway Recovery Act Funds Has Been Obligated for Iowa Highway Projects

As we previously reported, Iowa was apportioned \$358 million for highway infrastructure and other eligible projects. As of September 1, 2009, \$320 million had been obligated (about 90 percent of available funds) for 183 highway projects in 83 of the state's 99 counties.²¹ For those projects where funds have been awarded, Iowa Department of Transportation officials reported that 139 projects, representing \$268 million, had begun. As of September 1, 2009, \$91 million had been paid to contractors and reimbursed by FHWA.²² Officials estimated that Iowa will spend and be

²⁰Pub. L. No. 111-5, § 1201, 123 Stat. 115, 212 (Feb. 17, 2009).

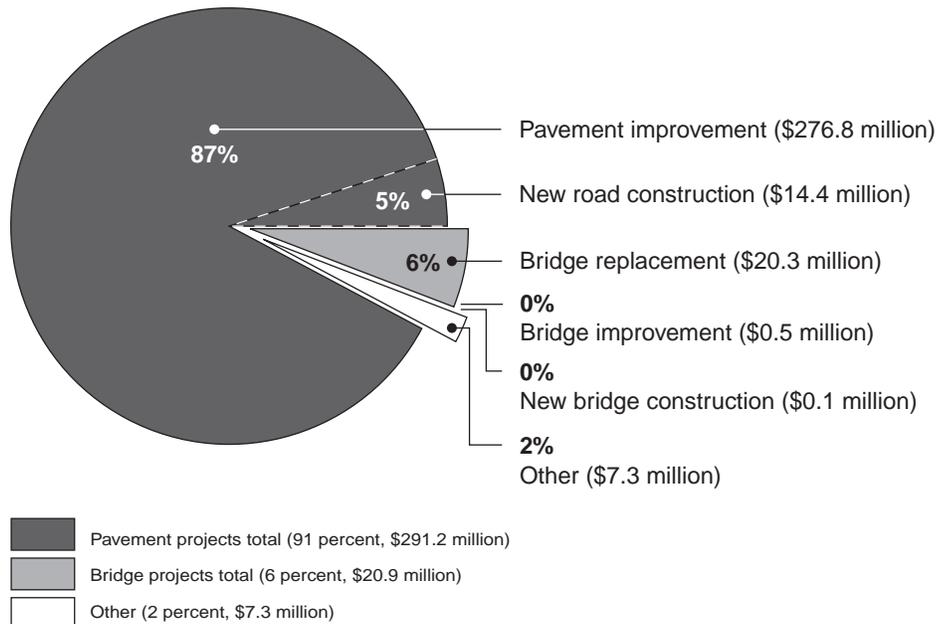
²¹For the Highway Infrastructure Investment Program, the U.S. Department of Transportation has interpreted the term obligation of funds to mean the federal government's contractual commitment to pay for the federal share of the project. This commitment occurs at the time the federal government signs a project agreement.

²²A state requests reimbursement from FHWA as it makes payments to contractors working on approved projects.

reimbursed a total of about \$215 million of its Recovery Act transportation funds by the end of December 2009.

About 87 percent of Recovery Act highway obligations for Iowa have been for pavement improvement projects. Specifically, \$277 million of the \$320 million obligated to Iowa, as of September 1, 2009, was being used for pavement improvement projects, such as the \$1.5 million patching and resurfacing of 6.4 miles of County Route G35 in Cass County, Iowa (discussed below). Additionally, \$20 million is being used for bridge replacements, such as the \$1.1 million for Iowa State Route 92 bridge over Keg Creek near Treynor, Pottawattamie County, Iowa (discussed below). Figure 2 shows obligations by the types of road and bridge improvements being made.

Figure 2: Highway Obligations for Iowa by Project Improvement Type as of September 1, 2009



Source: GAO analysis of FHWA 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.

Iowa Department of Transportation Is Using Existing Procedures for Internal Controls and Contract Administration of Highway Projects

State program agencies, such as the Iowa Department of Transportation, are responsible for establishing internal controls and procedures to ensure that their agencies spend funds as intended by law. Among other things, the department is responsible for ensuring contract award and performance are in accordance with established standards and conducted in compliance with laws and regulations. It is also responsible for maintaining important contract and financial documentation.

The Iowa Department of Transportation has detailed procedures for the administration and inspection of work performed by contractors, including written contracting procedures, contractor qualification standards, and material and construction specifications and guidelines. For example, the manual provides detailed guidance on how to sample and analyze materials such as freshly mixed concrete. The manual also requires that all of the materials used in highway construction in the state be listed on the state's list of approved manufacturers and brand names. All of this information is published in hard copy, online, and on compact discs. The state and local governments also employ construction and material inspectors and technicians, and construction engineers, to review, measure, and accept work performed by contractors. According to officials at the Iowa Department of Transportation, each item of work has a method of measurement and basis of payment, as well as various associated construction and materials specifications. The Iowa State Auditor's Single Audit Report for 2008 does not identify any material weaknesses in the Department of Transportation's highway planning and construction program.

In addition, according to agencies officials, to help achieve consistent contracting procedures across the state, the Iowa Department of Transportation requires that all Recovery Act-funded highway projects be advertised and bid centrally through the state contracts office. For example, the department review includes ensuring that only contractors that have been prequalified are requested to bid on projects.

As part of our assessment for this cycle, we reviewed four highway infrastructure projects—two resurfacing projects, a grading project, and a bridge replacement project—to determine if the contracting process for these projects reflected the state's published procedures. Two of these projects were state-administered projects and two were locally administered; they are located in different state highway districts and different counties. The following describes these projects:

- **Project 1.** The Cass County Board of Supervisors, in southwest Iowa, awarded a contract to patch and resurface 6.4 miles of County Route G35. This \$1.5 million project is being administered locally by the Cass County engineer.
- **Project 2.** The Iowa Department of Transportation awarded a contract to replace the Iowa State Route 92 bridge over Keg Creek, 3 miles west of Treynor, in Pottawattamie County, Iowa. This \$1.14 million project is being administered by Iowa Department of Transportation District 4.
- **Project 3.** The Iowa Department of Transportation awarded a contract to regrade a 2.6 mile segment of Iowa State Route 141, northwest of Mapleton, in western Iowa's Monona County. This \$2.27 million project to reduce snow blockage along this route is being administered by Iowa Department of Transportation District 3.
- **Project 4.** The Polk County Board of Supervisors awarded a contract to resurface 6 miles of N.W. 118th Avenue in northern Polk County, north of the Des Moines metro area, in central Iowa. This \$2.1 million project, administered by the Polk County engineer, has been completed.

We reviewed these contracts and confirmed with state and county highway officials that all four contracts

- were competitively awarded to the lowest qualified bidder;
- were for a fixed price;
- considered only prescreened, qualified contractors;
- established financial penalties for failure to start or complete work, as contracted;
- required reporting of contractor staff and hours worked on the project; and
- were regularly monitored and inspected by qualified state or local engineers and inspectors.

Iowa's Department of Transportation Reports That the Recovery Act Funded More Than 2,700 Contractor Employees in July 2009

Like other Iowa agencies, the Department of Transportation has not yet reported under Section 1512 of the Recovery Act. However, the department continues to report project, financial, and employment information to FHWA. This reporting is required by the Recovery Act to provide greater accountability and transparency and includes, among other things, monthly reporting of contracts awarded, projects in process, employees working and employee hours worked. Also the department reports this information to the U.S. House of Representatives' Committee

on Transportation and Infrastructure. In addition, the department's Web site provides weekly updates on projects funded and contracts awarded under the Recovery Act, and Recovery Act funds spent on each project.

To support these reporting requirements, the Iowa Department of Transportation established its own centralized reporting system, in addition to the state's centralized reporting system, which allows the department's district offices, local governments, and contractors to enter and verify required Recovery Act financial and employment data. This information provides the basis for the department's report to the state's central system, FHWA, the House Committee on Transportation and Infrastructure, the Iowa public, and the media.

In July 2009, according to state transportation officials, citing Iowa's most recent report to the House Committee on Transportation and Infrastructure, the Recovery Act funded 2,724 highway contractor employees. For the same period, transportation officials said that more than 160,000 hours of work were funded by the Recovery Act. Officials said that, cumulatively, Iowa's Department of Transportation has reported to the committee that more than 363,000 hours of highway employee work have been funded by the Recovery Act. Iowa transportation officials estimate that for projects completed as of August 17, 2009, Recovery Act funding has contributed to the repair of more than 110 miles of state, county, and city roads.

Use of Weatherization Funds Has Been Limited because of Delay in Setting Prevailing Wages for Workers

Iowa has for years operated a Weatherization Assistance Program that receives funding from several sources, including the U.S. Department of Energy (DOE). Each year, Iowa uses this funding to weatherize approximately 2,000 homes of low-income clients. The Division of Community Action Agencies manages the state's Weatherization Assistance Program, and it, in turn, relies on 18 local agencies, all experienced in weatherization work, to carry out the program at the local level. In 2009, Iowa received \$8.6 million in regular weatherization funding from DOE. However, the amount significantly increased when the Recovery Act provided a large increase in weatherization funding later in the year. Using the Recovery Act funding, DOE allocated \$80.8 million for the Weatherization Assistance Program to be used over a 3-year period. Iowa plans to use these funds to weatherize an additional 7,196 homes.

On July 2, 2009, DOE approved Iowa's weatherization plan under the Recovery Act and released an additional \$32.3 million of the total \$80.8 million allocated to the state. As of August 31, 2009, Iowa had been

awarded about \$40.4 million, or 50 percent of its total DOE allocation, but had spent only about 5 percent of the funding received. Furthermore, no homes had been weatherized using Recovery Act funds. Instead, Iowa has used these funds to provide training and technical assistance and purchase vehicles and equipment—"ramp up" activities—that will be used when the Recovery Act Weatherization Program is fully implemented in the state.

According to state weatherization officials, they refrained from spending Recovery Act funds on weatherization work until the U.S. Department of Labor (Labor) established the prevailing wage rates for weatherization workers covered by the Recovery Act Weatherization Assistance Program.²³ State officials told us that they and all 18 local agencies that manage the Weatherization Assistance Program responded to the Labor survey to gather wage and benefit data on weatherization workers in Iowa by the requested date. The officials understood that the prevailing wages for Iowa would be available by July 25, 2009. On July 24, they received notice from Labor that the wage rates would be delayed, but should be available by August 14, 2009. On August 19, 2009 Labor established a prevailing wage rate for weatherization work in the state. On August 20, 2009 state officials received notification that prevailing wages had been determined and notified local agencies that they could accept bids and issue contracts for weatherization.

Because the requirement that workers be paid at least the prevailing wages, as determined by the Davis-Bacon Act, had not previously applied to the weatherization program and prevailing wages were not yet established, state officials provided general guidance to the local agencies on the overall requirements of the Davis-Bacon Act and on completing the Labor survey. However, officials told us that they were reluctant to implement the Recovery Act Weatherization Assistance Program without knowing the wages that local agencies and contractors who do the work must be paid and because they had limited experience with the Davis-Bacon Act. Many of the weatherization contractors are small companies that employ few full-time staff, and most do not provide benefits to their employees. According to these officials, if wages and benefits paid to weatherization workers turned out to be less than the prevailing wages,

²³Use of Recovery Act weatherization funds is subject to Section 1606 of the act, which requires all laborers and mechanics employed by contractors and subcontractors on Recovery Act projects to be paid at least the prevailing wage, including fringe benefits, as determined under the Davis-Bacon Act. See Pub. L. No. 111-5, § 1606, 123 Stat. 115, 303 (Feb. 17, 2009).

the contractors would be liable for back payments. These back payments could be burdensome, especially for the smaller contractors, and might also give the appearance that contractors intentionally underpaid their employees. Furthermore, under the Davis Bacon Act, the local agencies or contractors must prepare a certified payroll each week and pay weatherization workers on a weekly basis. Both of these requirements are new to the Iowa program. Therefore, while waiting for Labor to determine the Davis-Bacon wage issues, Iowa continued to use program funds made available through annual DOE appropriations to weatherize homes.

**Recovery Act
Weatherization Funds Will
Be Monitored Largely by
Existing Program Controls**

According to state weatherization officials we spoke with, Iowa did not complete a risk-based assessment of the local agencies that implement its weatherization program primarily because all the agencies have demonstrated successful track records implementing a weatherization program, as evidenced in annual evaluations. These officials also consider existing program controls sufficient to ensure that weatherization funds are used for their intended purpose. Seventeen of the 18 agencies that implement the Weatherization Assistance Program have done so for more than 25 years, and the newest agency has implemented the program since 2006. In addition, state officials informally assess each local agency's performance on a continuing basis.

Controls over the Weatherization Assistance Program require the state to conduct an annual fiscal evaluation of each local agency. An on-site fiscal evaluation is completed under an established audit process and includes an examination of documents and records pertaining to salaries, materials, equipment, and indirect costs charged to the Weatherization Assistance Program. According to state officials, the same fiscal evaluation will be completed at all local agencies that receive Recovery Act funds. In addition, according to state officials, each local agency is contractually required to segregate, track, and maintain Recovery Act funds independently of other revenue streams. We found that the following audit steps are included in the state's fiscal evaluation:

- A sample of files is reviewed to determine if expenses charged to the program are adequately documented and comply with established limits. The review includes a sample of invoices for materials and labor charges and a review of timesheets and payroll ledgers.
- Inventory data for equipment costing \$5,000 or more are reviewed and tracked from year to year to assure that the local agency retains the equipment and is properly accounting for the equipment on hand.

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- The agency's procedures for handling interest earned on cash deposits is reviewed to assure that the agency complies with federal rules governing the amount of interest the agency may retain. For the Weatherization Assistance Program, interest amounts up to \$100 per year may be retained.
 - A sample of transactions for costs typically allocated to several programs (such as copiers and phones) is reviewed to determine if the cost allocation plan and procedures provide for a fair and equitable distribution of costs.

Iowa Officials Plan to Use Existing Performance Measures to Monitor the Results of Weatherization Funds

State officials will use the existing program performance measures, such as the number of homes weatherized and the resulting energy savings, to evaluate the Iowa Recovery Act Weatherization Assistance Program from an overall perspective and to assess the performance of each local agency. In addition, according to state officials, the local agencies are contractually required to track and report data on the effect of Recovery Act funds, such as the number of jobs created, to the Division of Community Action Agencies. The division, in turn, will report this information to the state's data center operated by the Iowa Department of Management. While state weatherization officials are confident that they will be able to track and measure the effect of Recovery Act funding, they are awaiting guidance on the specific items they are to measure and report.

Under current DOE requirements, which will continue to be followed under the Recovery Act program, each local agency must inspect all homes weatherized to ensure that all work was completed properly, all materials used were of good quality and installed properly, and no health or safety problems were created. The state is required to inspect at least 5 percent of the homes weatherized by each local agency, but according to state officials, they typically inspect 7 percent to 9 percent of all homes weatherized. State officials are also required to annually assess each agency's performance. During this annual assessment, officials evaluate each agency's house inspection process and determine the number of homes weatherized, the resulting energy savings, and the attendance of the agency's staff at training sessions and state meetings. In addition, state officials plan to conduct several monitoring visits to each local agency each year to determine how well each agency is spending Recovery Act funds and how well it is tracking and reporting required data, such as the number of jobs created. The state will be adding five staff to assist with the monitoring of Recovery Act weatherization funding—two new staff have already been hired in the Division of Community Action Agencies and

another has been reassigned to the program. Two new staff to assist in monitoring the local agencies' fiscal controls over weatherization will be added in the near future.

State Comments on This Summary

We provided the Governor of Iowa with a draft of this appendix on September 9, 2009. The Director, Iowa Office of State-Federal Relations, and the Director for Performance Results, Department of Management, responded for the Governor on September 14, 2009. Officials agreed with our findings. The officials also offered technical suggestions, which we have incorporated, as appropriate.

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