

September 2009

# RECOVERY ACT

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



GAO

Accountability \* Integrity \* Reliability

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# Appendix X: Michigan

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## Overview

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

This appendix focuses on how Michigan used Recovery Act funds; how it had implemented safeguards, such as controls over the procurement of goods and services; and how recipients were assessing results of the Recovery Act funding, such as the number of jobs created. In Michigan, we reviewed six Recovery Act programs. We selected these programs because they had a number of risk factors, including the receipt of significant amounts of Recovery Act funds or a substantial increase in funding from previous years' levels. Consistent with the purposes of the Recovery Act, funds from the programs we reviewed are being directed to help Michigan and local governments stabilize their budgets and to stimulate infrastructure development and expand existing programs—thereby providing needed services and jobs. Specifically, work on contracts for highway projects using Highway Infrastructure Investment funds had been under way in Michigan for several months, and provided an opportunity for us to review the use of the funds and the financial controls, including oversight of the contracts. Similarly, the three U.S. Department of Education (Education) programs we reviewed had also been under way in Michigan for several months and provided an opportunity to review the use of the additional Recovery Act funds and consider internal controls at the state and locality level, including controls and financial management reforms under way at the Detroit Public Schools (DPS). We also reviewed Michigan's weatherization program because it experienced significant growth due to Recovery Act funds. Finally, the WIA Youth Program in Michigan also experienced significant growth due to Recovery Act funds and was largely directed toward a summer employment program which was in full operation at the time of our review. Highlights of these programs are:

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### Highway Infrastructure Investment Funds

- The U.S. Department of Transportation's Federal Highway Administration (FHWA) apportioned \$847 million in Recovery Act funds to Michigan. As of September 1, 2009, the federal government

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

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had obligated \$575 million to Michigan and \$41 million had been reimbursed by the federal government.

- As of September 1, 2009, Michigan had awarded 153 contracts for highway projects. Of these 153 contracts, work had begun on 94 contracts and 1 had been completed. The majority of funds obligated in Michigan are for highway pavement projects.
- According to transportation officials, because the contracts generally have been awarded for less than the original estimates, the state will be able to fund additional projects. The additional projects will primarily be pavement and bridge improvements in economically distressed areas.
- We reviewed two transportation contracts and spoke with officials who stated that the Michigan Department of Transportation (MDOT) has contracting procedures and internal controls in place for awarding and overseeing highway infrastructure investment Recovery Act contracts.

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## Weatherization Assistance Program

- The U.S. Department of Energy (DOE) allocated about \$243 million in Recovery Act Weatherization funding to Michigan for a 3-year period ending in March 2012. Based on information available on August 31, 2009, DOE provided about \$121.7 million to Michigan representing 50 percent of the amount allocated by DOE, and the state had obligated about \$198.7 million to subrecipients, subject to limitation based on the availability of federal funds.
- According to state officials, as of August 31, 2009, Michigan had awarded 32 weatherization contracts and had expended about \$2 million.
- The state's goal is to weatherize at least 33,000 units, a large increase over the 14,346 units weatherized during program years 2005 through 2007.
- To help monitor whether these funds are used appropriately, Michigan's Department of Human Services (DHS) hired additional staff to monitor the program and plans to hire several more.

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## State Fiscal Stabilization Fund

- The U.S. Department of Education (Education) allocated \$1.592 billion in State Fiscal Stabilization Fund (SFSF) moneys to Michigan, with

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\$1.302 billion for education stabilization and \$290 million to fund government services.

- As of September 1, 2009, Education had made two-thirds of the total education stabilization funds available to the Michigan Department of Education (MDE)—\$873 million. MDE officials told us that they allocated \$600 million of these funds to local educational agencies (LEA).
- As of September 1, 2009, MDE had approved LEAs' applications for \$599 million of the education stabilization funds and LEAs had drawn down \$584 million. MDE officials told us that LEAs plan to use most of the funding for teacher salaries.
- State officials told us they planned to use the government services portion of the SFSSF to replace state general fund revenues and pay for other state services; none of the funds will be provided to MDE.

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**Title I, Part A, of the Elementary and Secondary Education Act of 1965, as Amended**

- As of August 18, 2009, Education made 50 percent of Michigan's total Title I, Elementary and Secondary Education Act of 1965 (ESEA) Recovery Act funds available to MDE—\$195 million of the state's total allocation of \$390 million.
- According to MDE officials, they made a preliminary allocation of all of these funds to the LEAs and planned to make final allocations to the LEAs later in the fall of 2009 after reviewing their applications.
- MDE officials said they have encouraged LEAs to use their ESEA Title I Recovery Act funds for programs such as professional development for teachers and professional staff and for supplemental reading programs.

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**Individuals with Disabilities Education Act, Parts B and C**

- On April 1, 2009, Education made the first half of Michigan's total \$213 million in Individuals with Disabilities Education Act (IDEA) Recovery Act funds available to the state—\$207 million for the Part B grants and about \$6 million for Part C grants.
- As of August 14, 2009, MDE had allocated all of the IDEA Part B funds for grants for school-aged children and youth, but it had not provided any of the funds because it had not yet approved the grant applications.

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- According to MDE officials, LEAs intend to use the Part B grants to, among other things, retain special education teachers; acquire new technologies, including automated data systems and electronic smart boards for use in classrooms; enhance professional development for teachers; and provide additional bus transportation services to students with disabilities.
  - The MDE officials also said the Part C grant funds will be used for early intervention services and, as of August 14, 2009, they had approved 42 applications for almost \$5 million of these funds.

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## Workforce Investment Act Youth Program

- The U.S. Department of Labor (Labor) allotted about \$74 million in Workforce Investment Act (WIA) Youth Recovery Act funds to Michigan and, as of August 31, 2009, Michigan had drawn down about \$20.2 million. The state allocated \$63 million to 25 Michigan Works! Agencies (MWA).
- As of July 31, 2009, Michigan had enrolled 12,166 youth in summer jobs through its Recovery Act-funded WIA summer employment programs. The state Department of Energy, Labor and Economic Growth (DELEG) provides overall program guidance to the MWAs, but the design, implementation, monitoring, and reporting on the use of and accounting for WIA Recovery Act funds is the responsibility of the MWAs.
- Although DELEG and MWA officials in Detroit initially said they did not foresee any difficulties, they later cited several challenges in running the program. Our work identified significant internal control issues with payroll preparation and distribution; the process for making eligibility determinations; and a lack of documentation supporting such decisions in the Detroit summer youth program. Progress is under way by state and local officials to address each of these issues, although more work remains.

Michigan officials continue to work towards developing a state-level centralized system that the state will use to report to the Office of Management and Budget (OMB) and satisfy Recovery Act reporting requirements. The Director of Michigan's Economic Recovery Office (Recovery Office) believes the state will be able to report centrally, but said that state agencies could report directly to the federal government if needed.

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## As Michigan's Overall Economic Condition Creates Pressure on the State's Fiscal Position, Recovery Act Funds Will Continue to Provide Partial Relief

Michigan continues to face considerable economic difficulties and significant fiscal challenges in meeting its balanced budget obligations for fiscal years ending September 30, 2009, and beyond. The state's overall unemployment rate was 15 percent in July 2009, up from 8.3 percent in July 2008. Michigan's manufacturing sector was particularly hard hit, losing about 108,900 jobs between July 2008 and July 2009, representing over 19 percent of all the manufacturing jobs in the state.<sup>2</sup> Local communities that have historically relied on manufacturing jobs must deal with even higher unemployment rates. For example, in July 2009 the city of Detroit had an unemployment rate of 28.9 percent and the city of Flint's unemployment rate was 28.6 percent.

This increase in unemployment has been accompanied by a continuing decline in state revenues. As noted in our July 2009 report, the state's May 2009 revenue estimate projected lower state revenues for fiscal year 2009 compared not only to fiscal year 2008 revenues, but also to revenue estimates published four months earlier.<sup>3</sup> Despite lowered expectations, actual revenue collections have continued to fall short of projections. For example, according to the Senate Fiscal Agency's monthly revenue reports, revenues for June and July 2009 totaled \$110 million, which was 3.1 percent below what the May revenue estimate had projected for this 2-month period. This decline illustrates the rapid deterioration in the state's fiscal condition and the difficulty in projecting Michigan state revenues. State budget officials also reported that revenues that can only be used for specified purposes, such as fees from game and wildlife licenses and state parks, have also declined in recent months.

Michigan is using a combination of Recovery Act funds and cost-cutting measures to balance the state's budget and is relying on Recovery Act funds to substantially, although not entirely, fill growing budget gaps. Over the 3 years ending September 30, 2011, Michigan expects \$3.6 billion to be available, as a result of the Recovery Act funds, for budget stabilization.<sup>4</sup>

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<sup>2</sup>Within manufacturing, the automotive industry—including automotive parts producers—declined by more than 42,000 jobs (28 percent) from July 2008 to July 2009.

<sup>3</sup>The Michigan Department of the Treasury, House Fiscal Agency, and Senate Fiscal Agency prepare the Consensus Revenue Estimate in January and May of each year to help legislators prepare the state's budget.

<sup>4</sup>The state is expecting just over \$2 billion in state funds to be made available as a result of the enhanced Federal Medical Assistance Percentage (FMAP) (discussed in detail in [GAO-09-1016](#)); \$1.3 billion through SFSF education stabilization funds and \$290 million through SFSF government services funds.

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For example, state officials expect Recovery Act funds, in addition to almost \$400 million in spending cuts described below, to free up sufficient state revenue to address a \$1.4 billion revenue shortfall and allow the state to end fiscal year 2009 with a balanced budget. As noted in our July 2009 report, for the fiscal year ending September 30, 2009, Michigan's cost-cutting actions included reducing revenue sharing to cities, villages, and townships by 10 percent; mandating 6 unpaid furlough days for 38,000 of the state's 52,000 state employees; laying off 400 employees (including 100 state troopers); closing three correctional facilities; and enacting a 4 percent across-the-board cut for most state agencies. State Budget Office officials told us that, despite initial hopes to use Recovery Act funding for new projects, Michigan has used a large portion of these funds to free up state revenues for the maintenance of existing programs due to the state's ongoing fiscal challenges.

Michigan's "rainy day fund"—the Counter-Cyclical Budget and Economic Stabilization Fund—does not offer assistance to meet the state's existing fiscal challenges. Since fiscal year 2005, the fund has had a balance of about \$2 million, and the Senate Fiscal Agency did not anticipate that any transfers out of this fund would occur during fiscal years 2009 or 2010 because it would not adequately address Michigan's budget situation.

State officials continued to express concerns about Michigan's fiscal outlook when the Recovery Act funds run out. Rather than spending all of its Recovery Act funds up front and creating the need for massive spending cuts in fiscal year 2011, Michigan is considering a range of options, including spending cuts and possibly tax increases, to balance the state's annual budgets. State officials also said they are working with state agencies to prioritize Recovery Act spending in ways that could be sustained in 2011 and going forward after the majority of Recovery Act funds expire. Officials from the House Fiscal Agency, Senate Fiscal Agency, and State Budget Office told us their strategy is to minimize the effects of the budget shortfall by using Recovery Act funds in fiscal years 2010 and 2011, primarily by using state funds that will be made available as the result of SFSF and the increased Federal Medical Assistance Percentage (FMAP). However, the exact allocation of Recovery Act funds remains uncertain as fiscal year 2010 budget negotiations continue and the state, as of September 17, 2009, did not yet have an approved budget for fiscal year 2010.

According to state budget officials, Michigan will seek reimbursement from the U.S. Department of Health and Human Services (HHS) for the cost of the state's Economic Recovery Office (Recovery Office), which is

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expected to be about \$2 million for fiscal year 2009. On June 26, 2009, the state formally identified Recovery Office-related costs in an amendment to its statewide cost allocation plan submitted to HHS. In this amendment, Michigan opted to use the “billed cost” option available for calculating administrative costs associated with the Recovery Office. Officials told us that the state chose this option to avoid any potential lag that might arise from trying to reconcile estimated costs with actual costs.<sup>5</sup> Further, they informed us that HHS responded to Michigan’s submission in August and the state is planning to submit a revised addendum by the end of September.

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## Michigan Continues to Develop a Statewide Central Reporting System

The Michigan Economic Recovery Office Director told us that, as of September 1, 2009, the state plans to meet the October 10, 2009, due date for reporting to the federal government on Recovery Act spending through a centralized reporting process. The Recovery Office Director believes the state will be able to report centrally, but said that state agencies could report directly to the federal government if needed. If reporting under a centralized approach is not practical for the initial report due to the federal government in October 2009, then state agencies will report directly to their cognizant federal departments and to OMB. The Recovery Office Director said that the state agencies have been instructed to register with the OMB, a necessary procedure for direct reporting.

Michigan officials continue to work toward developing a state-level centralized system that the state plans to use for reporting to OMB and complying with the reporting requirements under Section 1512 of the Recovery Act.<sup>6</sup> These officials said they believe that a centralized reporting system will provide the best mechanism for reporting accurate and consistent data to the federal government and enhance the state’s oversight and monitoring. Specifically, Recovery Office officials said they

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<sup>5</sup>The State Budget Office said it reviewed Office of Management and Budget (OMB) Memorandum M-09-18, *Payments to Grantees for Administrative Costs of Recovery Act Activities* (May 11, 2009) that provides guidance to the states regarding the use of either “estimated cost” or “billed cost” options for determining the amount of administrative costs to be recovered. Because of the narrow scope of administrative costs the state is pursuing, M-09-18 did not affect the decision to use the “billed cost” option for Recovery Office costs.

<sup>6</sup>Recovery Act reporting requirements include identifying the entities receiving Recovery Act dollars, the amounts, which projects or activities are being funded, projects’ completion status, and an estimate of the number of jobs created and the number of jobs retained by projects and activities.

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will be able to analyze the data they receive from all state agencies for consistency and reasonableness in relation to other state agency spending data. The officials also said they believe that this level of review will not be as effective if each state agency reports directly to the federal government under a decentralized model. The Michigan Recovery Office has recommended that state agencies not delegate reporting requirements to subrecipients of Recovery Act funds so the state can maintain better control over the reporting process. However, state agencies have the authority to delegate reporting requirements to subrecipients.

Officials from the Michigan Department of Information Technology (MDIT) said they had been working to develop the state-level centralized reporting system and intended to begin testing the system in July 2009. However, after receiving the OMB guidance in June, they recognized that the system under development did not have provisions for all of the data elements specified in the OMB guidance.<sup>7</sup> Officials told us they are working to include all required information in their system.

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## Michigan Has Begun Several Highway Projects Using Recovery Act Funds

As we reported in July 2009, FHWA apportioned \$847 million to Michigan in March 2009 for highway infrastructure and other eligible projects. As of September 1, 2009, the state had obligated \$575 million, or 68 percent, of these funds.<sup>8</sup> In addition, as of September 1, 2009, FHWA had reimbursed \$41 million to the state.<sup>9</sup>

The Recovery Act provides funding to states for restoration, repair, and construction of highways and other activities allowed under the Federal-Aid Highway Surface Transportation Program and for other eligible surface transportation projects. The Recovery Act requires that 30 percent of these funds be suballocated, primarily based on population, for metropolitan, regional, and local use. Highway funds are apportioned to states through federal-aid highway program mechanisms, and states must

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<sup>7</sup>OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009).

<sup>8</sup>For the Highway Infrastructure Investment Program, DOT 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.

<sup>9</sup>States request reimbursement from FHWA on an ongoing basis as the state makes payments to contractors working on approved projects.

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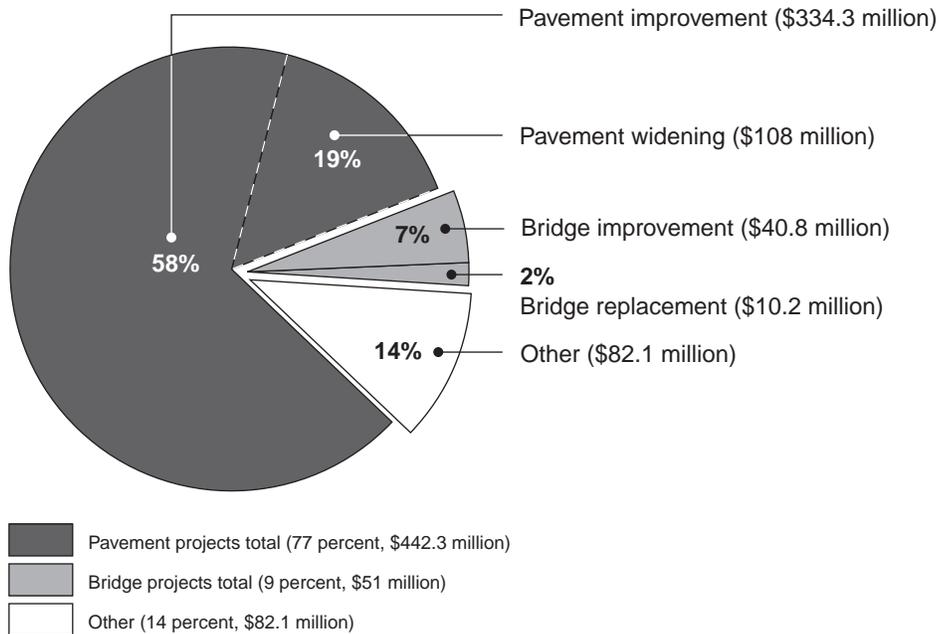
follow existing program requirements, which include ensuring the project meets all environmental requirements associated with the National Environmental Policy Act, paying prevailing wages in accordance with federal Davis-Bacon Act requirements, complying with goals to ensure disadvantaged businesses 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.

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### The Majority of Funds Obligated in Michigan Are for Highway Pavement Projects

About 77 percent of Recovery Act highway obligations for Michigan are for pavement projects. Specifically, \$334 million of the \$575 million obligated in Michigan as of September 1, 2009, is being used for projects such as pavement improvement, including \$120 million for road resurfacing. MDOT officials told us that they selected mostly pavement projects because the primary focus of Michigan's capital improvement plan for highways has been maintaining existing roads and bridges and improving pavement conditions. In addition, pavement projects met one of the Recovery Act requirements that funds for highway infrastructure investments be obligated within 120 days of apportionment. Figure 1 shows obligations by the types of road and bridge improvements being made.

**Figure 1: Highway Obligations for Michigan by Project Type as of September 1, 2009**



Source: GAO analysis of FHWA data.

Notes: "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.

MDOT officials further told us that, as of September 1, 2009, Michigan had awarded 153 contracts for highway projects. Of these 153 contracts, work had begun on 94 contracts and 1 had been completed. According to MDOT officials, the completed project, which started in April 2009 and was completed in June 2009, involved preventive maintenance, including concrete pavement repairs to about 11 miles of Interstate 75 on the Ogemaw and Arenac County lines. The officials also said that the contract had a total value of about \$854,000. As of September 1, 2009, 38 contracts were pending award, 16 were out for bid, and MDOT planned to advertise another 53 contracts. Since our July 2009 report, MDOT officials stated that Michigan has continued to find that contracts for Recovery Act projects are being awarded for less than the amounts it had estimated when the funds were obligated for the projects, which will allow them to allocate funds to additional projects. Because MDOT initially identified more projects than it estimated could be funded with the \$847 million apportioned to Michigan for highway infrastructure projects, officials plan to use the funds freed up by the lower bids for these additional projects,

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which are primarily for pavement and bridge improvements in economically distressed areas.

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### Michigan Is Using Existing Contracting Procedures and Internal Controls for Awarding and Overseeing Recovery Act Contracts

MDOT has processes in place for the award and oversight of contracts using Recovery Act funds. We selected two contracts for pavement improvement projects to review—one for more and one for less than \$20 million. The first contract we reviewed was a state-administered contract in a rural, economically distressed area with a value of \$21.7 million—making it a large highway project for the state. MDOT awarded this contract to resurface about 7 miles of Interstate 196 (I-196) in Allegan County and building a new rest area. The project was scheduled to begin in May 2009 and be completed by November 2009. The second contract we reviewed was a locally-administered contract in an urban, economically distressed area. MDOT awarded this contract, which totals about \$1.6 million, for concrete pavement and repair of about 1.2 miles of Pasadena Avenue in Flint. It was scheduled to start in August 2009 and be completed by June 2010.

According to MDOT officials, they awarded these two contracts competitively and followed the department's procurement procedures. Officials provided the following facts about the procurement procedures. Contractors seeking to bid on MDOT projects must be pre-qualified to perform tasks such as road and bridge construction and repair and concrete or hot mix asphalt paving. Only bidders who have been prequalified by MDOT are allowed to submit bids on projects. As a part of its review process, MDOT ensures that contractors that have either had their prequalification suspended or have been debarred<sup>10</sup> are not allowed to bid. Contracts are then awarded to the lowest prequalified bidder for each project. MDOT received bids from four and six bidders for the I-196 and Pasadena Avenue projects, respectively, and all bidders were prequalified and had not been suspended or debarred, and the contracts were awarded to the lowest bidders.

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<sup>10</sup>According to officials, MDOT can debar a contractor if (1) the contractor has been debarred by the federal government and is on the debarment list posted on a federal website maintained by the General Services Administration (<https://www.epls.gov>) that lists contractors that are excluded from receiving federal contracts and certain subcontracts or (2) the contractor has serious performance issues, such as felony convictions, work performance and safety issues, or contract violations.

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According to MDOT officials, these two contracts are fixed unit price contracts with estimated quantities. Specifically, the unit price for all construction material is fixed but the final price of the contract depends on the quantity of materials used. For example, according to state officials, the contractor for the Pasadena Avenue project is required to repair the concrete base after removing the old asphalt, but the quantity of concrete required for these repairs cannot be determined until the asphalt is removed, which will affect the final price of the contract.

According to officials, to help the state meet its Recovery Act reporting requirements regarding job creation, the contracts require the contractors to report to MDOT every month on the total (1) number of employees who performed work on the contracts, (2) number of hours worked by those employees, and (3) wages of the employees working on the projects. In August 2009, MDOT began using a new Web-based system to allow contractors to input employment and wage data directly into a database rather than filling out a form to report these data. MDOT officials told us that this system should increase efficiency and reduce data entry errors.

Since construction on the I-196 project began on June 1, 2009, contractors have submitted reports for June and July to MDOT. The July 2009 report showed that 108 employees worked on the project. To check the accuracy and completeness of the data, MDOT field staff for this project compared the information provided in the contractor's reports with weekly payroll information and on-site inspection reports that the MDOT Project Manager prepared.

MDOT officials intend to use the department's standard procedures to monitor whether Recovery Act construction contractors deliver quality goods and services in accordance with the contract terms. For example, for the two contracts we reviewed, we discussed procedures with agency officials who stated that all of the following monitoring activities have taken place. After contract award, MDOT assigned a project manager to oversee day-to-day construction activities and make sure the contractor met all contract requirements. The project manager and his oversight staff conducted routine inspections, reviewed testing and certifications of materials used in the project, and drafted daily inspection reports. The project manager also held regular on-site meetings with the contractor, which provide a vehicle for identifying issues that may arise so officials can take necessary actions to resolve them.

MDOT uses a program/project management system that tracks the project schedule and resource needs based on information received from the

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project manager. A Project Steering Committee reviews the information in this system and information from the contractors' monthly reports to identify areas needing attention. MDOT uses separate accounting codes to track Recovery Act projects and generate reports for FHWA and Michigan's Economic Recovery Office.<sup>11</sup>

Officials told us that, at the end of each project, the project manager is required to reconcile and account for the work completed and the materials used before issuing the final payment. Officials explained that, before issuing final payment to a contractor, the project manager is also required to evaluate a contractor's performance. Officials stated that MDOT's Contractor Performance Evaluation Review team reviews the performance evaluations for all prime contractors and subcontractors. According to MDOT officials, this team's review is intended to determine whether the contractor's performance on the project has been satisfactory in meeting MDOT's performance standards and whether staff have followed MDOT's procedures and guidelines in rating contractors' performance.

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## Michigan's Use of Recovery Act Funds for Weatherization Assistance Is Under Way

The Recovery Act appropriated \$5 billion over a 3-year period for the Weatherization Assistance Program, which the DOE administers through each of the states, the District of Columbia, and seven territories and Indian tribes. The program enables low-income families to reduce their utility bills by making long-term energy efficiency improvements to their homes by, for example, installing insulation, sealing leaks; and modernizing heating equipment, air circulation fans or air conditioning equipment. Over the past 32 years, the Weatherization Assistance Program has assisted more than 6.2 million low-income families. By reducing the energy bills of low-income families, the program allows these households to spend their money on other needs, according to DOE. The Recovery Act appropriation represents a significant increase for a program that has received about \$225 million per year in recent years.

As of September 14, 2009, DOE had approved all but two of the weatherization plans of the states, the District of Columbia, the territories, and Indian tribes—including all 16 states and the District of Columbia in our review. DOE has provided to the states \$2.3 billion of the \$5 billion in

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<sup>11</sup>MDOT also provides project status updates to FHWA area engineers and conducts site reviews on an as-needed basis.

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weatherization funding under the Recovery Act. Use of the 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.<sup>12</sup> Because the Davis-Bacon Act had not previously applied to weatherization, Labor had not established a prevailing wage rate for weatherization work. In July 2009, DOE and Labor issued a joint memorandum to Weatherization Assistance Program grantees authorizing them to begin weatherizing homes using Recovery Act funds, provided they pay construction workers at least Labor’s wage rates for residential construction, or an appropriate alternative category, and compensate workers for any differences if Labor establishes a higher local prevailing wage rate for weatherization activities. Labor then surveyed five types of “interested parties”<sup>13</sup> about labor rates for weatherization work. The department completed establishing prevailing wage rates in all of the 50 states and the District of Columbia by September 3, 2009.

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### Michigan’s Weatherization Plan Provides Goals for Reducing Energy Usage

DOE allocated a total of \$243 million in Recovery Act funds for a 3-year period to Michigan and approved Michigan’s weatherization plan on July 6, 2009. As of August 31, 2009, DOE provided about \$121.7 million of the funds representing about 50 percent of the amount allocated by DOE. Officials from Michigan’s Department of Human Services (DHS), which administers the Weatherization Assistance Program and is the prime recipient of funds, stated that as of August 31, 2009, DHS had obligated \$198.7 million and expended about \$2 million. According to the officials, as of August 24, 2009, DHS had awarded contracts with 30 community action agencies (CAA) and 2 limited purpose agencies for the total amount obligated.<sup>14</sup> According to state officials, the amount obligated by the state is subject to limitation based on the availability of federal funds. DHS officials told us that each CAA that uses subcontractors has prepared a

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<sup>12</sup>The Weatherization Assistance Program funded through annual appropriations is not subject to the Davis-Bacon Act.

<sup>13</sup>The five types of “interested parties” are state weatherization agencies, local community action agencies, unions, contractors, and congressional offices.

<sup>14</sup>CAAs are agencies that support low-income residents’ efforts to achieve self-sufficiency primarily in the areas of housing, employment, education, energy, nutrition, healthcare and transportation. Limited purpose agencies are non-CAAs that perform weatherization for the state of Michigan.

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request for quotation (RFQ) to obtain vendors for weatherization materials and services and that they plan to review all the RFQs. As of August 31, 2009, DHS officials had reviewed almost 20 RFQs to ensure they met Recovery Act and state requirements. The state's goal is to weatherize at least 33,000 units with Recovery Act funds, a large increase over the 14,346 units weatherized in program years 2005 through 2007.<sup>15</sup> DHS is also using Recovery Act funds to train weatherization workers, pre-inspect homes to determine eligibility for weatherization, and hire and train new DHS program staff. In addition, DHS has provided technical assistance to CAAs through a workshop. Further, some agencies have purchased specialized equipment that inspectors use to test for leaks and heat loss in houses as part of the pre-inspection process. DHS has established a statewide goal that 20 percent of those served will be elderly and 15 percent will be persons with disabilities. Although a CAA establishes individual goals, DHS must approve any goals that are below the statewide goals.

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### Use of Recovery Act Weatherization Funds Was Slowed by the Need to Determine Prevailing Wages under the Davis-Bacon Act

According to agency officials, approval of expenditures for weatherization contracts using Recovery Act funds was slowed by the need for DHS to include prevailing wage rates for use in setting contract terms with CAAs. Although CAAs could have used Recovery Act funds to begin weatherizing homes (providing they paid construction at least Labor's wage rates for residential construction or an appropriate alternative category and compensate workers for any differences if appropriate), DHS officials told us that most CAAs preferred to wait for Labor to determine the prevailing wage rates. CAAs did not want to face the administrative difficulties of correcting wages already paid. In order to determine prevailing wages, Labor created a survey that DHS forwarded to the CAAs along with instructions for completing it. On August 12, 2009, Labor posted the prevailing wage rates for Michigan to be paid under the requirements of the Davis-Bacon Act. According to officials, DHS subsequently awarded contracts with all CAAs and two limited purpose agencies.<sup>16</sup>

Initial concerns that Michigan officials had before determining the prevailing wage rates for weatherization activities have diminished. In July 2009, DHS officials expressed concerns about determining the wage rates for weatherization activities. According to DHS officials, job classifications

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<sup>15</sup>This number includes units that may have been weatherized previously.

<sup>16</sup>The only DOE weatherization projects to which Davis-Bacon applies are those receiving Recovery Act funding.

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specific to weatherization had not been identified. Additionally, they said that the wage rates for employment related to weatherization work were inconsistent from one county to another. For example, one CAA in the Lansing area, which provides weatherization services in four counties, paid \$18 an hour to workers in three of the four counties and \$42 an hour to workers in the remaining county. However, Labor subsequently determined that the prevailing wage in this remaining county is \$28 an hour, a rate in better alignment with the wage rates across the four counties. Additionally, in July 2009, DHS officials expressed concerns that certain areas of the state had prevailing wage rates that would be prohibitively high, which would negatively affect their ability to work within the state's funding limit of \$6,500 per unit average for weatherization. However after Labor released the prevailing wage rates for Michigan, officials found the wage rates to be acceptable.

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### DHS Has Increased Staff to Monitor the Use of Recovery Act Weatherization Funds

Since June 2009, DHS officials have used Recovery Act funds to hire five additional staff to monitor the use of Recovery Act funds related to the Weatherization Assistance Program. Specifically, they said they hired a manager to oversee the program, two staff to review weatherization projects, a technical supervisor, and a fiscal analyst. They also plan to hire 15 additional staff, including technical specialists and administrative support staff, and are considering hiring someone with expertise in the compliance and reporting requirements of the Davis-Bacon Act.

DHS officials created a plan to monitor the Weatherization Assistance Program and said that they plan to monitor the use of weatherization funds by conducting annual visits to each CAA. These visits would alternate between comprehensive and shorter monitoring visits. The comprehensive visits would include a fiscal review, staff interviews, job site visits, and reviews of client files. DHS officials also plan to have their technical supervisors review at least 5 percent of all weatherized units. Michigan's State Auditor General told us that the Single Audit review of DHS for 2007 through 2008 is in process and includes consideration of the Weatherization Assistance Program. The most recent Single Audit report on DHS for the fiscal years 2005 through 2006 did not include a review of the state's Weatherization Assistance Program.

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### DHS Officials Remain Concerned about Recovery Act Reporting

On August 31, 2009, DHS officials told us that for the first Recovery Act reporting period, ending September 30, 2009, they were planning to report information directly to the federal government. DHS conducted a workshop for CAAs on the reporting requirements of the Recovery Act so

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that the CAAs could assist local subrecipients in understanding the requirements. DHS officials plan to use the data elements supplied by DOE and Labor to estimate job impact of the funds and noted they can use much of the information they already collect for these reports. However, DHS officials expressed concerns about the precision of the data that will be reported. They said that, although the Recovery Act requires them to report their use of the funds by October 10, 2009, agency data for Michigan's fiscal year 2009, which ends on September 30, 2009, will not be finalized until October 24 or 25.

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## SFSF Will Be Used to Maintain Education Programs and Replace General Fund Gaps Caused by Reductions in State Revenues

The Recovery Act created a state fiscal stabilization fund (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 (IHE). The initial award of SFSF funding required each state to submit an application to Education that provided several assurances, including that the state will meet maintenance-of-effort requirements (or 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 must use the remaining 18.2 percent for public safety and other government services, which may include education (these funds are referred to as government services funds). 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 IHEs. 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 IHEs. In general, school districts maintain broad discretion in how they can use education stabilization funds, but states have some ability to direct IHEs in how to use these funds.

Education allocated \$1.592 billion in SFSF moneys to Michigan on April 1, 2009: \$1.302 billion for education stabilization and \$290 million in

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government services funds. As of September 1, 2009, Education had made \$873 million (two-thirds of the total education stabilization funds) available to MDE. MDE officials told us that LEAs had to submit applications for the education stabilization funds to MDE. MDE officials told us that they allocated \$600 million of these funds to LEAs and, as of September 1, 2009, had approved LEAs' applications for \$599 million of the education stabilization funds. These officials told us that the states' LEAs had drawn down \$584 million of the education stabilization funds after MDE approved their applications. Two of the state's LEAs—a charter school and a small district—did not apply for education stabilization funds because, according to MDE, those LEAs had decided not to accept Recovery Act funds. MDE officials also told us that although they did not allocate any of these funds to IHEs—the state's colleges and universities—for the 2008–2009 school year, they plan to allocate \$68 million to IHEs for the 2009–2010 school year. According to the MDE officials, most LEAs plan to use the education stabilization funds to restore items deleted from their budgets as a result of cuts in state education funding made during the 2008–2009 school year. Therefore, they anticipated that most of the funds would be applied to teacher salaries, which represents the bulk of the LEAs' budgets.

Officials with Michigan's Office of the State Budget told us the state will use the state's total SFSF government services allocation of \$290 million to address areas where the state's general funds were cut as a result of reductions in state revenues. As of September 16, 2009, the state legislature had not yet specified the programs to be supported with the state's government services portion of SFSF funds.

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## Michigan Has Made Preliminary Allocations of ESEA, Title I Recovery Act Funds

The Recovery Act provides \$10 billion to help LEAs educate disadvantaged youth by making additional funds available beyond those regularly allocated through Title I, Part A of the Elementary and Secondary Education Act (ESEA) of 1965. The Recovery Act requires these additional funds to be distributed through states to LEAs using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. In using the funds, LEAs are required to comply with current statutory and regulatory requirements and must obligate 85 percent of the funds by September 30,

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2010.<sup>17</sup> Education is advising LEAs to use the funds in ways that will build the agencies' long-term capacity to serve disadvantaged youth, such as through providing professional development to teachers. 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 18, 2009, Michigan had made preliminary allocations of the \$195 million in ESEA, Title I Recovery Act funds, which was about 50 percent of the \$390 million Education made available to the state on April 1, 2009. MDE officials told us they planned to make the final allocations of these funds to LEAs in the fall of 2009 after approving LEAs' applications. Applications from LEAs that had summer programs were due to MDE by the end of July 2009, but applications from LEAs without summer programs were not due until September 1, 2009. MDE officials expressed concern that the Recovery Act funds they are allowed to use for administrative support were not sufficient to cover the resources required to review the large number of additional applications for ESEA, Title I and other education-related Recovery Act funds and to monitor LEAs' uses of the funds. They also said that Education's proposal to adjust the statutory caps on administrative costs did not fully address their concerns because these costs would be capped at \$1 million, which represents about .26 percent of their total Title I, ESEA Recovery Act funds. In addition, based on their reviews of the applications received to date, MDE officials said they expected many LEAs would be required to revise their applications to provide additional information on their planned use of the funds.

According to MDE officials, the carryover waiver they received from Education for their ESEA Title I funds will be critical in allowing LEAs to use the funds after the September 30, 2010, cutoff date for obligating 85 percent of ESEA Title I funds. However, they also said that some LEAs have expressed concern about challenges in meeting the "supplement not supplant" provisions of ESEA Title I.<sup>18</sup> Specifically, LEAs rely on education funding provided by the state through sales tax revenues, which have

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<sup>17</sup>LEAs must obligate at least 85 percent of their Recovery Act ESEA Title I, Part A funds by September 30, 2010, unless granted a waiver, and must obligate all of their funds by September 30, 2011. This requirement is referred to as a carryover limitation.

<sup>18</sup>In general, ESEA Title I requires states and LEAs to use federal funds to supplement and not supplant the funds that would, in the absence of federal funds, be made available from nonfederal sources.

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declined significantly in recent years. As a result, LEAs may find it difficult to only use Recovery Act funds to supplement their ESEA Title I programs rather than supplanting them because of the recent declines in state funding for these programs.

MDE has encouraged LEAs to use their ESEA Title I Recovery Act funds for programs such as professional development for teachers and staff and for supplemental reading programs. MDE officials said that the applications they reviewed indicate that many LEAs also plan to purchase equipment such as “smart boards”— electronic boards linked to the Internet that can be used to display interactive educational materials in the classroom. According to MDE officials, the LEAs’ applications for ESEA Title I Recovery Act funds describe a range of activities because Michigan has LEAs that vary greatly in size, including a few large urban districts and many that are small and rural. For example, one LEA has fewer than 100 students, at least five LEAs are made up entirely of one-room schools, and two LEAs are located on islands only accessible by boat or plane during much of the school year. In addition, 250 of the state’s LEAs are public school academies (charter schools) with no defined geographic boundaries that overlap with those of the other LEAs. As a result, MDE must recalculate funds provided via formula grants in order to determine the funds to be allocated to the public school academies that are based on the income eligibility of their students using the number of students who receive free and reduced lunches rather than U.S. Census poverty data, which are based on geographic boundaries.

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## Michigan Department of Education Has Not Approved All LEAs’ Applications for IDEA Recovery Act Funds

The Recovery Act provided supplemental funding for programs authorized by Parts B and C of Individuals with Disabilities Act (IDEA), the major federal statute that supports the provisions of early intervention and special education and related services for infants, toddlers, children, and youth with disabilities. 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). Part C funds programs that provide early intervention and related services for infants and toddlers with disabilities—or at risk of developing a disability—and their families. 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.

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On April 1, 2009, Education made the first half of Michigan's IDEA Recovery Act funds available to the state—a total of \$207 million for both types of Part B grants and \$6.2 million for Part C grants. As of August 14, 2009, MDE had allocated all of the Part B funds for grants for school-aged children and youth—\$200.3 million—to LEAs through the state's intermediate school districts (ISD) but none of the funds had been provided because their applications had not been approved.<sup>19</sup> As of September 1, 2009, MDE officials said that they were in the process of reviewing the applications but had not yet approved any of them. As of August 14, 2009, MDE had allocated all of the \$6.7 million in Part B IDEA preschool grant funds to ISDs and LEAs had drawn down \$2.3 million of these funds. According to MDE officials, as of August 14, 2009, they allocated all of the \$6.2 million in Part C IDEA grant funds to the ISDs and had approved 42 applications for \$4.9 million of these funds.<sup>20</sup>

MDE officials said that according to the applications they had reviewed, LEAs intend to use the \$200.3 million in IDEA Part B grants for school-aged children and youth to, among other things, retain special education teachers; acquire new technologies, including automated data systems and electronic smart boards for use in classrooms; enhance professional development for teachers; and provide additional bus transportation services to students with disabilities. According to MDE officials, \$2.3 million in the applications for Part B grants for preschool students approved by MDE will be used for salaries and to purchase services. According to MDE officials, most of the Part C grant funds will be provided to ISDs to purchase home-based early intervention services, but some LEAs plan to use the Part C funds for training programs in which the objective is to increase families' understanding of how to meet the needs of their children with disabilities. They also told us that about 10 LEAs plan to use their IDEA Part C funds for new construction.

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<sup>19</sup>Unlike most other states, Michigan's IDEA funds are provided to and managed by the state's 57 ISDs. IDEA funds provided to schools go through the ISDs to the LEAs and then to individual schools. Some IDEA funds, however, are provided directly by the ISDs to service providers rather than LEAs and schools. Except for ISDs in the upper portion of the state (the Upper Peninsula), an ISD generally corresponds to a county. For example, the ISD in which Detroit's LEA is located covers all 34 LEAs in Wayne County, Michigan and 82 public school academies.

<sup>20</sup>MDE provides the Part C IDEA funds to Michigan's ISDs, which contract with public and private service providers such as public health departments, mental health agencies, and private organizations to provide home-based early intervention services to children with disabilities. Some Part C funds are provided via the ISDs to LEAs, but most funds are used by the ISDs to purchase services directly from service providers.

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## MDE Will Use Existing Systems for Tracking and Reporting on Recovery Act Education Funds, but Challenges Remain

MDE officials said that they will use their existing cash management and grants management systems to track Recovery Act funds and meet the reporting requirements. LEAs will input data on the use of Recovery Act funds and on jobs created and retained into these systems. MDE officials said they will test these data to help ensure that they are timely, complete, and accurate. MDE has provided some guidance on the reporting requirements to LEAs and plans to train them on how to comply with the requirements. However, MDE officials said that LEAs vary significantly in their capacity to accurately track the use of the Recovery Act funds and the requirements present some challenges to LEAs. For example, generally LEAs have not reported data on the use of grant funds on a quarterly basis as required by the Recovery Act—they have only reported on the use of the funds at the end of each grant. In addition, some of the adjustments needed in the state's grants management system to distinguish Recovery Act grant funds from regular federal education grants and produce reports on the use of these funds had not been completed, according to MDE officials. This may hinder MDE's ability to track and report on the uses of Recovery Act funds.

MDE staff are responsible for reviewing and approving LEAs' applications for Recovery Act funds and their use of the funds. As part of the oversight and monitoring process, MDE officials said that they plan to conduct on-site visits of schools to review their use of Recovery Act funds. These visits, which will each take about 3 days, will consist of MDE's internal auditors reviewing selected districts' financial statements, improvement in the district's student achievement on standardized tests, progress in implementing corrective action plans, and compliance with federal regulations. To increase accountability for Recovery Act funds, MDE also chairs a weekly meeting, called the ARRA Education Core Team meeting, to facilitate working with external partners, school boards, and public school academies (also known as charter schools) to identify issues regarding the use of Recovery Act funds. According to MDE officials, these meetings have provided valuable feedback on the use of Recovery Act funds.

The State Auditor General reported in a previous audit that MDE needs to improve the completeness and accuracy of the education data reported in the state's cash management and grants management systems.<sup>21</sup> In

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<sup>21</sup>Michigan State Auditor General, *Performance Audit of Selected Payment and Related Systems, Michigan Department of Education and Michigan Department of Information Technology*, November 2008.

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addition, in its Single Audits reports on MDE, the State Auditor General reported significant deficiencies in MDE's internal controls. For example, in its 2005 through 2007 Single Audit report, the State Auditor General found that the agency's internal controls over special education programs did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.<sup>22</sup> In April 2009, MDE issued its plan for corrective action to the State Auditor General. MDE officials told us that they were implementing their corrective action plan to improve the completeness and accuracy of data reported through the department's cash management and grants management systems.

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### MDE's Oversight of Detroit Public Schools Has Focused on Correcting Weaknesses in Financial Management and Eliminating the District's Budget Deficit

The Detroit Public Schools (DPS) has faced many challenges in recent years, including serious financial weaknesses, sizeable budget deficits, and large reductions in its student population. Single Audit reports on DPS identified several material weaknesses, including lax, system-wide oversight and controls in DPS contracting.<sup>23</sup> The 2008 Single Audit report contained 84 findings that identified deficiencies in five areas: (1) internal controls, (2) financial reporting, (3) policies and procedures, (4) training, and (5) information technology. DPS developed a corrective action plan for 70 of the findings and has contracted with a consulting firm to review the adequacy of its plan. The DPS Office of the Auditor General, an internal audit operation, is responsible for audits and reviews of district operations, including internal controls. The DPS Office of the Auditor General recently completed reviews of all the district's 194 schools and found that 189 schools (97 percent) had inadequate bookkeeping. The DPS Single Audit report dated December 10, 2008, reported that material audit adjustments were necessary for the financial statements to be fairly stated. Financial statements were not available in a timely manner to meet statutory and other deadlines.

In addition, as a result of the July 2008 Education Office of Inspector General audit of DPS's use of ESEA Title I funds, Education designated

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<sup>22</sup>Michigan State Auditor General, *Financial Audit Including the Provisions of the Single Audit Act of the Michigan Department of Education, October 1, 2005 through September 30, 2007*, June 2008.

<sup>23</sup>Independent Public Accountants: *Detroit Public Schools, Single Audit, For the Year Ended June 30, 2008* (December 10, 2008); *Detroit Public Schools, Single Audit Report, Fiscal Year Ended June 30, 2007* (February 13, 2008); *The School District of the City of Detroit Public Schools, Single Audit Report, Fiscal Year Ended June 30, 2006* (November 30, 2006).

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DPS's Deficit Elimination Plan  
Outlines Many Actions to Be  
Taken

DPS a high-risk district, requiring that all federal funds provided to DPS receive additional Education and MDE oversight. To comply, DPS must follow a checklist of required actions and develop strong internal controls. Education and MDE are working with DPS to address the district's financial management challenges. DPS officials said that they meet weekly with MDE officials and monthly with officials from Education's Office of Risk Management to discuss financial management issues.

As a result of financial management weaknesses and DPS's budget deficits, Michigan's Governor appointed an Emergency Financial Manager for the district in March 2009. The Emergency Financial Manager also appointed two oversight officials for the district to help improve its financial oversight. Since the Emergency Financial Manager has been in place, DPS has begun developing and implementing new policies and procedures to address the district's financial management challenges.

For fiscal year 2008, DPS reported in its audited financial statements an excess of expenditures over revenues of \$154 million.<sup>24</sup> Further, in April 2009, DPS officials projected an excess of expenditures over revenues of \$166 million for fiscal year 2009. Officials explained that in light of DPS's ongoing operating deficits it was required by law to submit a deficit elimination plan to MDE. MDE returned the district's first plan because it did not contain a long-range plan for eliminating the entire cumulative deficit—it only addressed the current year's deficit. DPS recently submitted a revised deficit elimination plan to MDE for its review.

DPS has significantly reduced the number of teachers by eliminating 2,400 positions and reduced its central office staff by 72 percent. However, according to DPS officials, further reductions will be required because 80 to 85 percent of its budget consists of teacher salaries and benefits. Over the past several years, DPS's budget problems have been compounded by declines in student enrollment as many former DPS students have moved or chosen to attend charter or private schools. Six years ago, DPS had about 167,000 students; by the 2008-2009 school year, its enrollment had declined to 93,000; and the estimate for the 2009-2010 school year is 88,000. This is a significant problem because the district's funding is based, in large part, on its enrollment. This decrease in enrollment has resulted in

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<sup>24</sup>Detroit Public Schools, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008*, Detroit Public Schools Division of Financial Services, December 10, 2008.

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the district having many buildings with unused capacity; it recently closed 61 buildings. One of DPS's primary goals is to improve its academic standards and performance to bring students back to the district and increase its enrollment. DPS officials noted that establishing and sustaining Recovery Act-funded initiatives will be difficult given the challenges the district faces. In addition to reducing its cumulative budget deficit under the direction of its Emergency Financial Manager and with the approval of MDE, DPS must continue its operations in order to meet the educational needs of students.

#### MDE Has Allocated Significant Recovery Act Funds to DPS

MDE allocated \$80 million in SFSF funding to DPS through fiscal year 2010. DPS plans to use most of its SFSF Recovery Act funds to backfill state aid cuts and support teacher salaries. Specifically, DPS officials said that they plan to pay the salaries of about 187 teachers with a portion of the district's \$80 million in SFSF Recovery Act funds. DPS's SFSF application stated that it also intends to use the funds to purchase a new information system that will track data such as students' demographic characteristics, schedules, registration dates, daily attendance, grades, and test scores.

MDE allocated \$148 million in ESEA Title I Recovery Act funds to DPS through fiscal year 2010. However, DPS had not received any of these funds because MDE had not approved its Title I application. As of September 10, 2009, DPS had been informed by MDE that its application has been substantially approved and that final approval of the application is pending. DPS officials plan to use the funds to develop a system for assessing the academic performance of children in kindergarten through third grade and a "Learning Village"—an electronic compilation of model curricula that can be used as a resource for enhancing student education and DPS's management of its education programs.

MDE allocated \$11.3 million in Recovery Act funds to DPS for IDEA Part B grants and \$700,000 for IDEA Part C grants. MDE provided the IDEA funds to the Wayne Regional Educational Service Agency (Wayne RESA), an intermediate school district. The Wayne RESA covers all LEAs in Wayne County, Michigan, including DPS and 33 other school districts, and 82 public school academies in the Detroit area. None of the IDEA funds, however, had been provided to DPS because MDE had not approved the ISD's application for IDEA funds. DPS officials said that they did not have an estimated date as to when the district will receive its IDEA Recovery Act funds. DPS officials said that they planned to use these funds to develop electronic individual development plans for students with

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disabilities and to support an initiative to enhance teachers' professional development.

DPS officials said that they will report information on the use of SFSF, ESEA Title I, and IDEA Recovery Act funds using the state's cash management and grants management systems. They also said that they are not sure whether MDE will add any requirements for tracking and reporting of Recovery Act funds.

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## Questions Remain about MDE's Ability to Accurately and Timely Report on Recovery Act Funds

Based on prior audit reports, questions remain about MDE's ability to report accurately and timely on the use of Recovery Act funds consistent with the accountability and transparency requirements of the act. A strong system of internal controls provides checks and balances against waste, fraud, abuse, and mismanagement and is an important component of an organization's ability to operate efficiently and effectively. GAO's guidance on internal controls may be useful in assisting MDE officials in implementing effective internal control over Recovery Act funds and determining what, where, and how improvement can be implemented.<sup>25</sup>

MDE and the state's largest LEA—DPS— do not have strong systems of internal controls and will need to compensate for existing systems and processes in order to meet the timing and other accountability requirements of the Recovery Act. Given that the first comprehensive report on the use of Recovery Act funds used through September 30, 2009, is due to the federal government by October 10, 2009, the risks and challenges that MDE faces include timely accounting for the significant amount of Recovery Act funds provided for education as well as the use of Recovery Act funds by LEAs. In June 2008, the State Auditor General reported significant deficiencies in MDE's internal controls. Also, LEAs vary significantly in their capacity to accurately track and report on the use of Recovery Act education funds. The poor internal controls of MDE and LEAs and the large amount of Recovery Act education funds allocated to the state result in increased risk that Recovery Act funds will not be used and accounted for in accordance with provisions of the act. According to MDE and DPS officials, the LEAs plan to use existing systems and processes to track funds. DPS will receive significant Recovery Act funds and plans to use its existing systems and processes to

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<sup>25</sup>GAO, *Internal Control and Management Tool*, [GAO-01-1008G](#) (Washington, D.C.: Aug. 1, 2001).

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account for and report on the use of Recovery Act funds. The independent auditor for DPS reported as recently as December 2008 that material weaknesses existed, including weaknesses in systemwide oversight and controls. Further, the auditor reported that material adjustments were necessary for DPS's financial statements to be fairly stated and that financial information was not available in a timely manner to meet statutory and other deadlines.

According to state and DPS officials, the district has a number of initiatives under way to address its accountability challenges. For example, in March 2009, Michigan's Governor appointed DPS's Emergency Financial Manager who has initiated a number of important actions, such as developing a strategic approach to address long-standing and often repeated audit findings. However, as of September 2009, improvements in the controls and processes for DPS remain a work in process. Many identified control deficiencies are still in need of attention despite numerous special efforts to transform accountability at DPS. Questions remain about the reliability of DPS financial information and the capacity of DPS to produce timely and accurate financial information. Further, change actions implemented and those under way at DPS are designed to address long-standing deficiencies through deliberate processes; however, they are not aimed at short-term actions that may be necessary to provide reasonable assurance that Recovery Act funds used through September 30, 2009, are properly accounted for and reported in October 2009, and that quarterly reports thereafter are accurate and timely. Further, the results of change actions have not yet been validated through external audit processes.

To provide accurate and timely Recovery Act reporting, MDE, in coordination with DPS, will need to consider implementing policies and procedures in the near term to provide reasonable assurance that education-related Recovery Act funds, including those provided to DPS, are reported accurately and timely, that jobs retained and created are accurately and timely reported, and that funds are used only for allowable purposes. It will also be important to implement targeted accountability practices—internal and external—with timely validation processes for reports on the use of education-related Recovery Act funds, including those submitted by DPS in accordance with the act's requirements.

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## WIA Recovery Act Funds Provided Summer Employment to Many of Michigan's Low-Income Youth, but Significant Internal Control and Program Challenges Exist

The Recovery Act provides an additional \$1.2 billion in funds for WIA Youth program activities, including summer employment. Administered by Labor, the WIA Youth program is designed to provide low-income in-school and out-of-school youth 14 to 21 years of age, who have additional barriers to success, with services that lead to educational achievement and successful employment, among other goals. Funds for the program are distributed to states based on a statutory formula; states, in turn, distribute at least 85 percent of the funds to local areas, reserving as much as 15 percent for statewide activities. The local areas, through their local workforce investment boards, have the flexibility to decide how they will use the funds to provide required services.

While the Recovery Act does not require all funds to be used for summer employment, in the conference report accompanying the bill that became the Recovery Act,<sup>26</sup> the conferees stated that they were particularly interested in states using these funds to create summer employment opportunities for youth. While the WIA Youth program requires a summer employment component to be included in its year-round program, Labor issued guidance indicating that local areas have the flexibility to implement stand-alone summer youth employment activities with Recovery Act funds.<sup>27</sup> Local areas may design summer employment opportunities including any set of allowable WIA Youth activities—such as tutoring and study skills training, occupational skills training, and supportive services—as long as they also include a work experience component. A key goal of a summer employment program, according to Labor's guidance, is to provide participants with the opportunity to (1) experience the rigors, demands, rewards, and sanctions associated with holding a job; (2) learn work readiness skills on the job; and (3) acquire measurable communication, interpersonal, decision-making, and learning skills. Labor has also encouraged states and local areas to develop work experiences that introduce youth to opportunities in “green” educational and career pathways. Work experience may be provided at public sector, private sector, or nonprofit work sites. The work sites must meet safety guidelines, as well as federal and state wage laws.<sup>28</sup> Labor's guidance requires that each state and local area conduct regular oversight

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<sup>26</sup>H.R. Rep. No. 111-16, at 448 (2009).

<sup>27</sup>Department of Labor, Training and Employment Guidance Letter No. 14-08 (Mar. 18, 2009).

<sup>28</sup>Current federal wage law specifies a minimum wage of \$7.25 per hour. Where federal and state laws have different minimum wage rates, the higher rate applies.

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and monitoring of the program to determine compliance with programmatic, accountability, and transparency provisions of the Recovery Act and Labor's guidance. Each state's plan must discuss specific provisions for conducting its monitoring and oversight requirements.

The Recovery Act made several changes to the WIA Youth program when youth are served using these funds. It extended eligibility through age 24 for youth receiving services funded by the act, and it made changes to the performance measures, requiring that only the measurement of work readiness gains will be required to assess the effectiveness of summer-only employment for youth served with Recovery Act funds. Labor's guidance allows states and local areas to determine the methodology for measuring work readiness gains within certain parameters. States are required to report to Labor monthly on the number of youth participating and on the services provided, including the work readiness attainment rate and the summer employment completion rate. States must also meet quarterly performance and financial reporting requirements.

Michigan received \$74 million in Recovery funds for the WIA Youth program and, as of August 31, 2009, had drawn down \$20.2 million. After reserving 15 percent for statewide activities, the state allocated \$62.9 million to the 25 local Michigan Works! Agencies (MWA) to provide services to youth. The Michigan's Department of Energy, Labor and Economic Growth (DELEG)—the state agency that administers the program—set a goal to spend the majority of its allocation during the summer of 2009. DELEG officials expected to serve 21,000 youth with Recovery Act funds compared to about 4,000 youth served in the summer of 2008 in the WIA year-round program.<sup>29</sup> The 25 MWAs have local flexibility in planning Recovery Act funded summer youth employment activities. For example, local areas have discretion to determine whether it is appropriate to link academic learning to summer employment opportunities.

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## Characteristics of WIA Summer Youth Employment Activities

We visited the MWAs in Detroit and Lansing. According to officials, both locations contracted out all their summer youth employment activities to other organizations. In Lansing, the MWA had contracts for youth services

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<sup>29</sup>Revised from preliminary estimate of 25,500 as of July 2009 to 21,000 as of September 2009 based on updated operational and wage data.

with nine entities, including two faith-based organizations. Jobs for summer youth in Lansing included positions with Michigan State University and Lansing’s Board of Water and Light. Detroit Workforce Development Department (Detroit MWA) contracted with an organization to recruit youth for employment in its 2009 summer youth program. As of August 31, 2009, the contractor had filled 6,774 summer jobs at 221 worksites, including a retail pharmacy chain, Henry Ford Hospital, the Detroit City Council, Detroit’s police and fire departments and Wayne County Community College District. Table 1 contains selected program features of the Detroit and Lansing local workforce development agencies as well as for all programs in the state.

**Table 1: Program Characteristics of Two Local WIA Youth Programs and for the State**

Program features	Detroit MWA	Lansing MWA	Total for Michigan
Michigan Works! Agency (MWA)	Detroit Workforce Development Department	Capital Area Michigan Works!	25 local workforce agencies of DELEG
Areas served	City of Detroit	Ingham, Eaton, and Clinton Counties	Statewide
Program design	Six 20-hour weeks, maximum 120 hours, of paid employment	Under 18: Up to 40 hours per week, including remediation Over 18: Up to 40 hours per week, plus remediation if needed	Determined by each MWA
Length of program	May 18 to September 30, 2009 <sup>a</sup>	June 22 to September 30, 2009 <sup>b</sup>	Determined by each MWA
Outreach	Local schools, nonprofit organizations, neighborhood initiatives, and word of mouth	Public service announcements and schools	Determined by each MWA
Target number of participants	7,000	600	21,000
Actual number of participants	6,774 <sup>c</sup>	725 <sup>c</sup>	12,166 <sup>d</sup>
Amount allocated	\$14.5 million <sup>e</sup>	\$3.3 million	\$73.9 million
Amount expended	\$7.8 million <sup>f</sup>	\$2.6 million <sup>g</sup>	\$3.3 million <sup>h</sup>
Range of jobs	Office assistant, senior citizens assistant, childcare assistant, teacher assistant, forestry apprentice, and “green” education coordinator	Animal care, office assistant, environmental services, and legislative aide	Determined by each MWA

Program features	Detroit MWA	Lansing MWA	Total for Michigan
Work readiness measure	Employability skills, job search and workplace readiness Measured at the completion of the program by an assessment instrument	Interpersonal and professional measures including punctuality, attendance, quality of work, grooming, operation of tools and equipment, and personal behavior Measured at the beginning, middle and end of the program by an assessment instrument	Determined by each MWA

Source: GAO analysis of local and state information for the WIA Youth program.

<sup>a</sup>According to a Detroit MWA official, out-of-school youth over 18 years old may continue participating in the program until March 31, 2010, or until program funds are exhausted, whichever occurs first.

<sup>b</sup>All participants were to receive a week of leadership training before beginning work on June 22, 2009.

<sup>c</sup>As of August 31, 2009.

<sup>d</sup>As July 31, 2009.

<sup>e</sup>Of the \$14.5 million awarded, of which \$11.4 million is from Recovery Act funds, Detroit MWA contracted with a contractor for \$6.2 million and retained \$8.3 million for participant payroll and administration.

<sup>f</sup>As of September 3, 2009. Of the \$7.8 million expended, Detroit MWA paid approximately \$2.1 million to the prime contractor and spent approximately \$5.7 million for youth payroll and administrative expenses.

<sup>g</sup>As of August 14, 2009.

<sup>h</sup>Amount expended through June 30, 2009, the latest data available, by Michigan's 25 MWAs according to DELEG was \$3.3 million. DELEG obtains expenditure information from the 25 MWAs through quarterly expenditure reports. According to a DELEG official information through the quarter ended September 30, 2009, is expected to be available on October 20, 2009.

## Detroit and Lansing Experienced Program Challenges for WIA Youth Summer Employment and Detroit Has Significant Internal Control Issues

Detroit and Lansing experienced challenges in implementing their WIA youth summer employment program—including managing a significant funding increase, the fact that the contractor for Detroit was new to the program, few program monitors for both Detroit and Lansing, the organizational complexity of the program delivery arrangement for Detroit, and no written policies and procedures for Detroit's payroll and its process for determining eligibility and a lack of documentation supporting such decisions. Further, Detroit had significant internal control problems with paying youth and weaknesses in its process for making program eligibility determinations. Effective internal control is a major part of managing any organization to achieve desired outcomes and manage risk.<sup>30</sup>

<sup>30</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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GAO guidance on internal controls describes challenges to the efficient and effective achievement of organizational goals and objectives as risk.<sup>31</sup> GAO's *Standards for Internal Control in the Federal Government* includes risk assessment as part of an overall framework for establishing and maintaining internal control and for identifying and addressing major performance challenges and areas at greatest risk for fraud, waste, abuse, and mismanagement.<sup>32</sup>

Further, the Recovery Act requires recipients of funds to comply with federal internal control standards. The Office of Management and Budget has stated that it will use its Circular No. A-133 Compliance Supplement to notify auditors of program requirements that should be tested for Recovery Act programs, and will issue interim updates as necessary.<sup>33</sup>

In May 2009, DELEG and MWA officials in Lansing and Detroit told us that they did not foresee any difficulties in implementing their Recovery Act funded WIA summer youth employment activities. State officials initially said they expected a smooth transition in using Recovery Act funds because of their experience running programs for displaced workers combined with the experiences of local MWA directors. However, in discussions throughout July and August 2009, officials cited several challenges as the much larger program got under way.

In accordance with Labor's requirements, DELEG's overall guidance states that MWA directors must conduct regular oversight and monitoring of Recovery Act funds in order to monitor whether expenditures are made against the appropriate cost categories and within cost limitations.<sup>34</sup> The guidance further states that oversight and monitoring should determine compliance with programmatic, accountability, and transparency

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<sup>31</sup>GAO-01-1008G.

<sup>32</sup> GAO/AIMD-00-21.3.1. See also GAO-01-1008G.

<sup>33</sup>The Office of Management and Budget's Circular No. A-133 sets out implementing guidelines for the single audit and defines roles and responsibilities related to the implementation of the Single Audit Act, including detailed instructions to auditors on how to determine which federal programs are to be audited for compliance with program requirements in a particular year at a given grantee.

<sup>34</sup>Michigan State Workforce Investment Plan Modification, Implementation of the American Recovery and Reinvestment Act of 2009, July 1, 2009 through June 30, 2010 <http://www.michigan.gov/mdcd/0,1607,7-122-217944-,00.html> (accessed September 15, 2009).

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requirements of the Recovery Act. To this end, DELEG set up separate accounting codes to track Recovery Act funds. The agency also holds monthly meetings with all 25 MWA directors to encourage reporting of consistent information. State program officials said they planned to conduct on-site monitoring visits of WIA worksites as well as three site visits each year at each of their MWAs. As of September 9, 2009, DELEG officials said that they had not begun their review of any of the MWAs.

Officials in both Detroit and Lansing told us that it was challenging to implement a larger program than they had in the prior year in a short time frame. Both Detroit and Lansing had more applicants than available jobs, necessitating much more screening of applications than in previous years. Detroit's summer youth program in 2009 had over two times the number of youth participants than in the prior year. Detroit MWA officials told us that they received 25,000 applications for 7,000 jobs. In August 2009, Detroit MWA officials told us that with 6,774 participants on August 31, 2009, they expect to reach their goal of 7,000 jobs before the end of the program. Lansing served over 100 more youth than expected and exceeded its goal of employing 600 youth during the summer of 2009. On September 16, 2009, DELEG officials told us that the state has not met its target but expects to meet its target to employ 21,000 youth.

In addition, Detroit MWA officials stated that they encountered several challenges working with the prime contractor. The contractor and its subcontractor were both new to the WIA program and one challenge was obtaining approval to use them from the City Council, a process which took several months. Detroit awarded the contract on May 4, 2009. Officials told us that the new contractor, however, did not have written policies or procedures or other related controls for payroll processing and distribution of the payroll. According to Detroit MWA officials, the previous contractor—that was not eligible to compete for the summer 2009 contract—had been in place for several years and had established policies and procedures for processing and distribution of the payroll.

Detroit fell short of its initial staffing goals for monitoring the program. Detroit MWA officials told us that the contractor's initial plans were to hire up to 150 additional staff, including 50 worksite monitors, by June 30, 2009. As of September 9, 2009, the contractor had 21 worksite monitors on staff. Detroit MWA and contractor officials told us final contract negotiations resulted in reducing total staffing to 140, including 21 worksite monitors. Lansing MWA officials told us that finding staff to monitor program activities was a challenge because of the limited amount of time available to recruit and employ youths for the summer. Lansing

MWA officials told us that they met their goal and hired 3 staff to monitor over 200 worksites. Also, Lansing officials indicated that they relied on their nine contractors to provide monitoring assistance through periodic reports on monitoring activities and results.

The design and delivery of WIA Youth summer employment activities was complex and involved many parties. According to state and local program officials this has proven to be challenging. For example, Detroit’s summer youth program involved roles and responsibilities spread among multiple parties including the Michigan Works! Agency—the Detroit MWA, the contractor and its subcontractor, an external payroll service provider, as well as approximately 221 worksites, and nearly 7,000 youth.

**Detroit Had Significant Internal Control Problems with Paying Youth Participants on Time and in the Correct Amounts**

Some of the youth in Detroit’s WIA summer youth program were not paid for their employment in a timely manner and checks had incorrect amounts, payee names, and addresses. The lack of written policies or procedures for the preparation and distribution of payroll affected Detroit’s ability to ensure accountability for Recovery Act funds. Progress is under way by Detroit MWA officials and the contractor to document the process flow for the preparation and distribution of payroll, identify problem areas, and develop written policies and procedures, and they expect to complete the initial phase (documenting the payroll process flow) by September 30, 2009.

As shown in table 2, 4 percent to 20 percent of youth in Detroit’s summer youth program were owed a paycheck but were not paid on time.

**Table 2: Summary of Payroll Preparation Results for the First Three Pay Periods**

	<b>July 25, 2009</b>	<b>August 8, 2009</b>	<b>August 22, 2009</b>
Number of youths due a paycheck	2,614	4,686	5,617
Number of checks printed	2,080	4,259	5,371
Amount of checks printed	\$449,122	\$1,335,227	\$1,707,907
Number of youth owed paychecks but not paid when due	534	427	246
Percentage of youth not paid when due	20.4	9.1	4.4
Unclaimed checks	Information not available	459	977

Source: Detroit summer youth program contractor data, unaudited.

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In August 2009, contractor officials told us that they were exercising due diligence in following up on providing all youth with checks in the correct amounts and that they were seeking to resolve all issues with paychecks as quickly as possible. At one of the worksites we visited where 25 youth were employed, the site manager told us that 10 of the youth were not paid the funds they were owed when they were due on August 8, 2009. We followed up with the manager at this worksite who said that, by the following week, all of the youth had been paid. There has been improvement in performance, such as the percentage of youths not paid when due, from the date of the first payroll on July 25, 2009, to the payroll that we observed on August 22, 2009. However, issues with payroll, such as youth owed paychecks but not paid when due, remain and additional work is necessary to correct the internal control problems with payroll processing and distribution.

There was also confusion as to where youth were to pick up their paychecks at the first payroll distribution on July 25, 2009. The logistics at the distribution site were not transparent and youth reported to the contractors that they did not know which line to use or whom to talk to in order to discuss problems with or questions about their paychecks.

Youths were also working at worksites that had not completed the registration process, and officials told us that as a result no checks were prepared for these youths. There were also issues in resolving problems, according to Detroit MWA officials, because youth initially did not have a place to go to ask questions regarding errors in their paychecks, including incorrect amounts, payee names and addresses, or when they did not receive their paychecks.

Although payroll distributions had improved over the summer, some problems remain. We observed the payroll distributions on August 8, 2009, and August 22, 2009, and found that the contractor had made some improvements. For example, the contractor had established a customer care unit to address the youth's concerns. The contractor also modified the payroll distribution process and distributed checks alphabetically, which decreased some of the confusion over the former worksite-based distribution process that it had used. However, there were problems during these two payroll distributions with the checks having the incorrect amount, payee name or address, and with youths not receiving their checks when due. In addition, we found that there were still problems with long lines. At the August 22, 2009, distribution, we observed that youth had to wait in lines as long as 4 hours while standing in the rain to receive their paychecks. Detroit MWA officials confirmed that the amount

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of time youths had to stand in line to receive their paychecks was, on average, 3 to 4 hours. Further, we observed on several occasions on August 22, 2009, local police were called to assist with crowd control. Contractor officials told us that the use of a larger venue for the September 4, 2009, payroll distribution reduced the waiting time.

It will be important that DELEG work with the Detroit MWA and contractors for the City of Detroit WIA Summer Youth Program to continue to address the internal control issues with youth not being paid on time and checks being prepared with incorrect amounts, payee names, and addresses, as well as to resolve past payroll issues and distribution challenges.

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## Detroit's Process for Determining Participation in Its WIA Summer Youth Program Needs Improvement

We found weaknesses in Detroit's process for making WIA Youth summer program eligibility determinations and a lack of documentation supporting such decisions. The federal requirements for WIA eligibility are meeting (1) the income test (limit on family income), (2) the age test (from 14 to 21),<sup>35</sup> and (3) having any one of six barriers to success.<sup>36</sup> Labor authorized the states to delegate the definition of the sixth barrier to local agencies.<sup>37</sup> Detroit MWA officials provided us with the City of Detroit's Comprehensive 5-year Local Plan (Plan) which included the definition for the sixth barrier. State officials told us that they had approved the 2008 program year plan that contained the same definition for the sixth barrier

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<sup>35</sup>The Recovery Act extended eligibility to age 24.

<sup>36</sup>The six barriers to success are: (1) limited English language proficiency, (2) school dropout, (3) foster child, homeless, or runaway youth, (4) single parent, pregnant, or parenting youth, (5) offender, or (6) is an individual (including a youth with a disability) who requires additional assistance to complete an education program or to secure and hold employment.

<sup>37</sup>29 C.F.R. § 664.210.

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as in the plan currently under review as of September 9, 2009. The applicable section of the Plan provides the following definition:<sup>38</sup>

“The Detroit WDB<sup>39</sup> has defined “youth residing in high poverty neighborhoods”<sup>40</sup> as its locally developed sixth criterion for eligibility. A high poverty neighborhood is one in which 30 percent<sup>41</sup> or more of all households are beneath the poverty line as defined by the U.S. Department of Health and Human Services, Office of Management and Budget.”

Although this definition was used in the Plan, neither Detroit MWA officials nor contractor officials could explain how they used the sixth criterion when making eligibility determinations. Further, these officials provided no explanation about how staff made eligibility determinations using this category absent guidance on how to interpret this category in reviewing applications. Moreover, the local contractor and subcontractor, told us they did not receive any instructions from the Detroit MWA on required documentation for this eligibility category. Therefore, the basis used for determining whether an applicant was eligible for the program or not is unclear.

During our fieldwork, we selected a nonprobability sample of 11 participant files.<sup>42</sup> Our review of these participant files revealed inadequate or nonexistent support of WIA eligibility determinations. One participant file’s registration form did not claim any barrier to success. While the other 10 participant’s eligibility determinations were based on the sixth criteria, we found that none of these files had documentation to support eligibility for this program. We discussed these issues with Detroit MWA

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<sup>38</sup>City of Detroit, “Revised Comprehensive Five-Year Local Plan July 1, 2000 – June 30, 2005 with an Extension From July 1, 2005 – June 30, 2010, Detroit Workforce Development Department <http://www.ci.detroit.mi.us/Departments/DetroitWorkforceDevelopmentDepartment/CurrentRFPs/tabid/1665/Default.aspx> (accessed September 15, 2009).

<sup>39</sup>Workforce Development Board (WDB) is a policy unit in the Detroit Michigan Works! Agency.

<sup>40</sup>Detroit MWA officials told us that they define the entire city of Detroit as a high poverty neighborhood.

<sup>41</sup>The U.S. Census Bureau reported that the percentage of all households in Detroit that were beneath the poverty level in 2007 was estimated to exceed 30 percent.

<sup>42</sup>Because our selection was not statistical, our results may not be projected to the population.

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officials and they told us that based on their review of the 11 files we reviewed, it would not be possible to determine eligibility based on the documentation in the files. Progress is under way by Detroit MWA to assess the process for determining eligibility and the documentation of eligibility determinations. Officials told us that they are reviewing 100 case files but as of September 8, 2009, this analysis had not been completed. We did not review the Detroit MWAs methodology for selection of the case files or for its review of the files.

On September 2, 2009, DELEG officials told us they are considering the information that we brought to their attention over the course of our work regarding the Detroit WIA program's eligibility process and the absence of documentation to support decisions on eligibility. It will be important for DELEG and Detroit officials to identify program risks and implement the appropriate internal controls to address issues involving eligibility determinations, and the lack of documentation supporting eligibility decisions.

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### State and Local Officials Are Attempting to Measure the Outcomes of the WIA Summer Youth Employment Activities

In accordance with Labor requirements, the state requires each MWA to track and report items such as the number of youth employed and program completion rates. Although the Recovery Act requires states to report the number of jobs created and retained through any activity supported by Recovery Act funds, Labor has issued guidance stating that states should not include WIA program participants in that number. In addition, the Recovery Act provided that only the measurement of work readiness gains is required to assess the effectiveness of summer-only employment for youth served with Recovery Act funds. States and local areas may decide the particular assessment tool to use to gauge work readiness gains.

The local areas we visited used different assessment instruments to determine work readiness skills. Youth participating in Lansing's program are evaluated by their supervisors on dimensions such as punctuality, grooming, quality of work, operation of tools and equipment, and personal behavior. Youth in Detroit's program were evaluated on employability skills and workplace readiness. Lansing evaluated participants at the beginning, middle, and upon completion of the program. Detroit evaluates participants using an external party upon their completion of the program. Officials from Lansing and Detroit said that the youth they are serving have been positively affected by the program (see fig. 2). For example, local officials stated that some youth expressed a sense of pride when they completed their orientation training or when they received their first

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paycheck. Other youth were provided with skills for independent activities of daily living, such as how to write a check.

**Figure 2: WIA Summer Youth Participant**



Source: GAO.

WIA summer youth employment program participant assisting in food service at a Lansing, Michigan hospital.

Officials at both MWAs that we visited were aware of the Recovery Act's emphasis on "green" jobs. Detroit defined green jobs as those that build awareness and understanding of the natural environment and encourage careers in environmental sciences and industry. According to Detroit MWA officials, their contractor's definition of a green job is one that "builds awareness and understanding of the natural environment and encourages careers in environmental sciences and industry." For example, green sector jobs in Detroit are those where youth are engaged in education as well as hands-on experience in activities such as recycling, reducing waste or carbon emissions and reusing products in a new and creative way. MWA officials in Detroit told us that they had developed a task force to address this issue and planned to place 600 youths in green jobs. As of August 31, 2009, 446 of Detroit's 6,774 WIA summer jobs (7

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percent) were defined by city officials as “green” jobs. Detroit MWA officials told us they expect to meet their goal by the end of the program. Lansing officials told us that they had difficulty identifying significant numbers of green jobs suitable for youths, although they created 42 green jobs for youths at worksites such as the Lansing Board of Water and Light and the School of Agriculture at Michigan State University.

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### Michigan Used Existing Contracting Procedures for Recovery Act WIA Funds

According to DELEG officials, existing state policies and procedures are intended to help safeguard the use of Recovery Act funds for the 25 MWA WIA Youth summer programs. We selected the Detroit MWA summer youth contract for review because this contract was for the largest WIA program in the state. According to the Detroit’s MWA officials, they follow city procurement practices and guidelines in awarding contracts, including those for the WIA program. In addition, officials told us that the Detroit MWA contract for the WIA program was competed. Officials explained that after selection of the winning bidder, a contract is drafted and reviewed by the city’s purchasing, budget, finance, and law departments before obtaining City Council approval. DELEG allocated \$14.5 million to the Detroit MWA for the WIA Youth program of which \$11.4 million is from Recovery Act funds.<sup>43</sup> According to officials, Detroit MWA awarded a cost reimbursement contract not to exceed \$6.2 million to a contractor for its WIA summer youth program for the period May 1, 2009, to June 30, 2010, and retained \$8.3 million for payroll and administrative costs.<sup>44</sup> This contract is funded by the Recovery Act and regular WIA funding. According to officials, the contractor issued a cost reimbursement subcontract not to exceed \$3.7 million for program delivery including payroll processing and worksite development and monitoring from May 15, 2009, to June 30, 2010. We discussed the contract with Detroit MWA procurement officials who told us that the award process was generally consistent with that described to us.

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<sup>43</sup>Of the \$11.4 million of Recovery Act funding allocated to Detroit MWA, Detroit MWA contracted with a contractor for \$3.1 million and retained \$8.3 million for participant payroll and administration.

<sup>44</sup>According to the Detroit officials, the prime contractor was awarded the WIA summer youth program contract under the City’s procurement process on May 4, 2009. The contract with the prime contractor was executed on July 8, 2009, following approval by city council.

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## State Comments on This Summary

We provided the Governor of Michigan with a draft of this appendix, and staff in the Michigan Governor's office and the Michigan Economic Recovery Office reviewed the draft appendix and responded on September 15, 2009. In general, they agreed with its overview of the state's activities in the six programs selected for analysis. Further they stated that they believe that the report identifies several critical challenges that all states, including Michigan, must address to ensure timely, accurate and effective implementation of the Recovery Act. They also stated that they remain committed to our efforts to work with state agencies and local recipients to ensure that all implementation challenges are identified and addressed. The officials also provided technical suggestions that we incorporated, as appropriate.

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## GAO Contacts

Susan Ragland, (202) 512-8486 or raglands@gao.gov

Revae Moran, (202) 512-3863 or moranr@gao.gov

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## Staff Acknowledgments

In addition to the contacts named above, Robert Owens, Assistant Director; Jeffrey Isaacs, analyst-in-charge; Manuel Buentello; Leland Cogliani; Ranya Elias; Kevin Finnerty; Henry Malone; Melanie Swift; and Mark Ward made major contributions to this report.