United States Government Accountability Office

GAO

Report to the Congress

May 2010

RECOVERY ACT

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

GAO-10-605SP

Appendix I: Arizona

Overview

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

What We Did

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

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

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

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

accountability community that have oversight responsibilities for Recovery Act funds.

What We Found

- **Education.** The U.S. Department of Education has made approximately $1.2 billion in Recovery Act funds available to Arizona for the State Fiscal Stabilization Fund (SFSF); grants under the Individuals with Disabilities Education Act (IDEA), as amended, Part B; and grants under Title I, Part A of the Elementary and Secondary Education Act of 1965 (ESEA), as amended. A large percentage of these funds are being used to pay employee salaries. Existing monitoring programs for non-Recovery Act funds have identified problems with LEAs' use of funds; these illustrate the importance of closely monitoring Recovery Act funds, but the responsible monitoring groups face staffing issues that affect the amount of coverage they can provide.

- **Department of Justice grants.** The U.S. Department of Justice's Bureau of Justice Assistance has awarded about $25 million directly to Arizona in Recovery Act Edward Byrne Memorial Justice Assistance Grant program funding. The Arizona Criminal Justice Commission, which administers the grants, said they passed through about $18.7 million to localities to support the state's drug task forces and tandem prosecution projects, about $4.2 million for statewide criminal justice projects, and retained about $2 million for administrative purposes. In addition, 13 local governments received a total of about $12.6 million in Recovery Act Community Oriented Police Services Hiring Grants and will use the funding to pay salaries and benefits for 56 police officers for fiscal years 2009-2011.

- **Clean Water and Drinking Water State Revolving Funds.** Arizona received a total of approximately $82 million in Recovery Act funding for its clean water and drinking water projects, which the Water Infrastructure Finance Authority of Arizona (WIFA) used to help finance 46 projects. WIFA has had difficulties monitoring its Recovery Act funded-projects, but WIFA is taking steps to strengthen its monitoring.

- **Public Housing Capital Fund.** Arizona has 15 public housing agencies that received a total of $12.1 million in Recovery Act funds. All 15 housing agencies obligated 100 percent of their funds by the March 17, 2010, deadline. However, the Department of Housing and Urban Development (HUD) field office had to work extensively with the state's two troubled housing agencies to obligate their funds in time. According to HUD field office officials, they are anticipating new monitoring requirements; however they do not know the potential impact of this new monitoring on their capacity to carry out those requirements.

- **Arizona's fiscal condition.** Despite receiving about $1.3 billion in Recovery Act funds in fiscal year 2010, Arizona faced a $2 billion shortfall, which was resolved with spending reductions and by acquiring additional debt. Facing continuing economic problems, Arizona's fiscal year 2011 budget was balanced with reductions in education, health, and other programs and a voter-approved 1-cent temporary increase in the state's sales tax. Economic forecasters estimate Arizona's revenue will not recover to the 2007 level until 2015.

- **Cities' use of Recovery Act funds.** Of the $57.5 million in Recovery Act funds awarded to Mesa, federal agencies provided approximately $16.5 million directly, while the remainder was awarded to state agencies that in turn passed the funds to the city. Flagstaff received approximately $2.6 million directly from federal agencies and the remainder of the total $4 million through state agencies. Officials in both Mesa and Flagstaff said that Recovery Act funds have helped to deliver services they otherwise would have been unable to fund, as well as employing local workers. Additionally, the funds are expected to provide long-term benefits to the cities.

- **Accountability.** State agencies recognize the importance of monitoring Recovery Act funds to protect against fraud, waste, and abuse, but current practices vary significantly, sometimes due to staffing shortages. Comprehensive audit activities just began in 2010 because most entities had expended only a fraction of the Recovery Act funds in 2009. The Single Audit is a significant tool used to oversee expenditures of Recovery Act funds. The results of the Arizona Auditor General's fiscal year 2010 Single Audit, scheduled to be released in 2011, will be a more comprehensive first look at Recovery Act funding. Some local governments are also conducting their own audits specific to Recovery Act funds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: GAO Summary of Arizona Department of Education records.

[a]Actions have been taken or are underway to address these deficiencies.

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

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

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

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

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

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

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

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

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

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

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

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

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

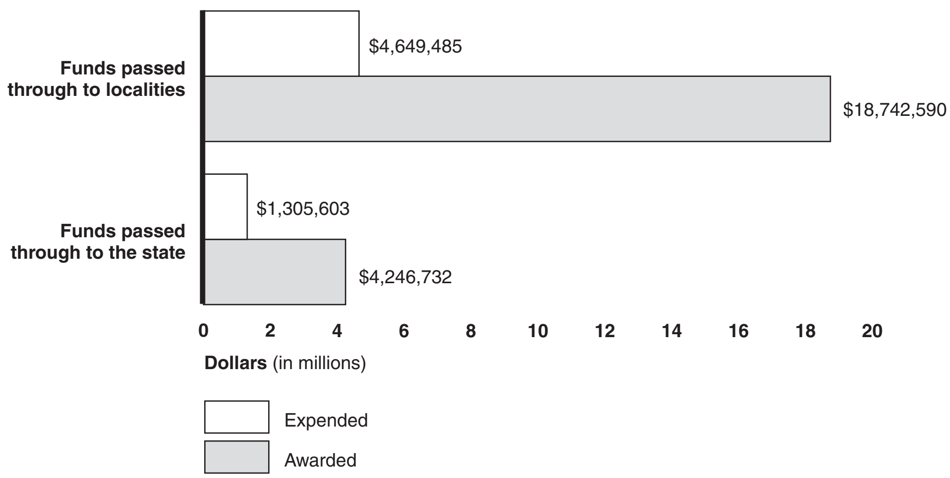
Recovery Act Edward Byrne Memorial Justice Assistance grants (JAG) awarded to the Arizona Criminal Justice Commission (ACJC)—the state agency that coordinates, monitors, and reports on Arizona's criminal justice programs—totaled about $25 million. These funds were intended to help ACJC with its work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

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

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

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

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



Source: GAO analysis of ACJC data.

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

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

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

In addition, ACJC officials are developing a system to integrate the performance data with financial and programmatic information to ease recipients' Recovery Act reporting obligations and simplify recipient reporting for ACJC. According to ACJC officials, in large part because of ACJC's efforts to align Recovery Act reporting requirements with state reporting requirements, they have not experienced any recipient reporting problems. ACJC staff also plan on visiting each pass-through recipient at least one time over the course of the 3-year JAG grant to ensure that the program funds are being expended in accordance with the grant guidelines.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 3: Clean Water and Drinking Water Site Visit Locations

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

Source: GAO summary of WIFA data.

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

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

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

Under the second method, WIFA officials rely on subrecipients to self-certify that contractors adhere to Recovery Act requirements, including the Recovery Act's Davis-Bacon wage rates and Buy American provisions. According to WIFA officials, subrecipients are required to certify in their project applications and loan documents that they understand their responsibilities for complying with Recovery Act requirements. Further, the officials said they also informed subrecipients that they must maintain all documentation used to meet these requirements at the project site for potential EPA audits or other inspections. WIFA provided subrecipients written guidance on the Davis-Bacon wage rates and Buy American provisions for subrecipients and contractors, and EPA trained them through in-state seminars and Webcasts.

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

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

WIFA Is Taking Actions to Strengthen Its Monitoring Efforts

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

On March 11, 2010, EPA provided Arizona an inspection checklist to assist in evaluating subrecipients' compliance with Recovery Act requirements during WIFA on-site reviews or other inspections. WIFA forwarded the checklist to all subrecipients and scheduled site visits to familiarize the subrecipients with the new checklist requirements. A senior loan officer is also assessing all 46 projects against the new checklist through June. Furthermore, although EPA officials told us that using this checklist is voluntary, WIFA's executive director is making it mandatory and has revised its monitoring process so that inspectors will use the checklist during on-site project observations.

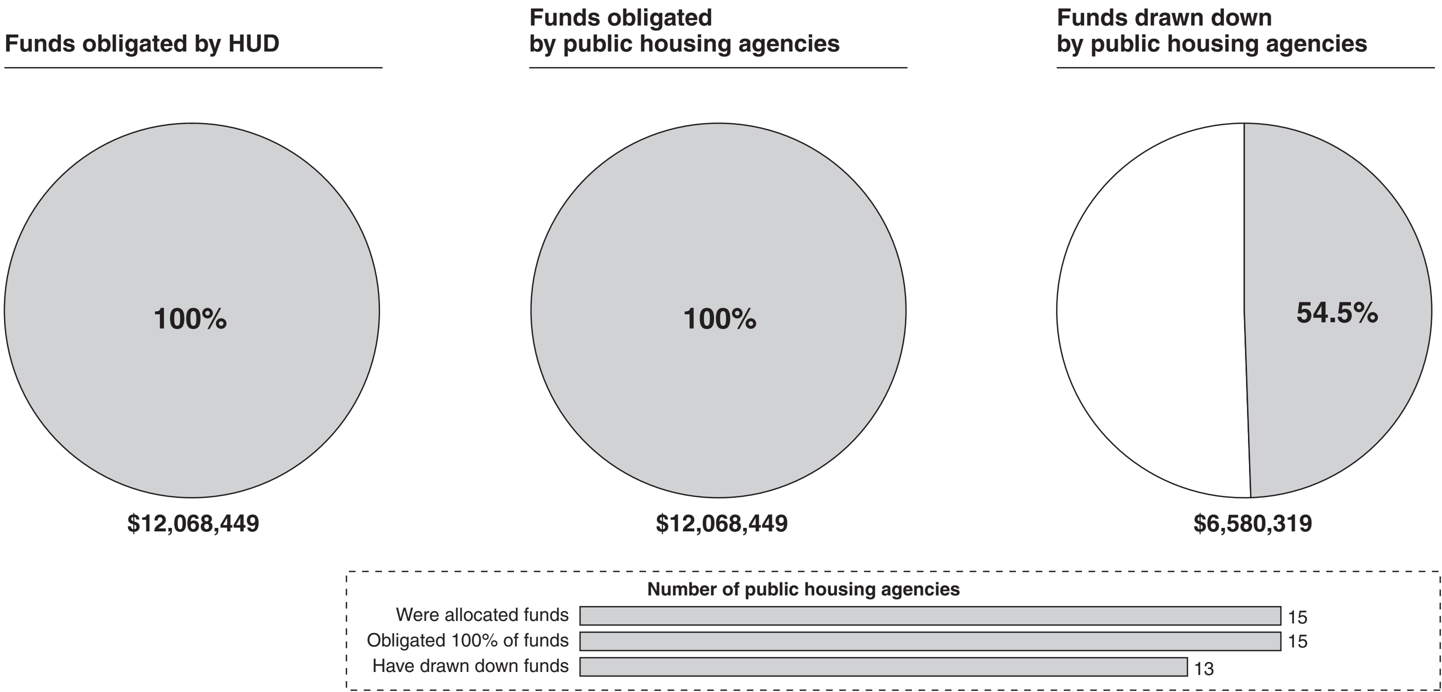
To address the issue of subrecipients not drawing down their funds in a timely manner, the executive director has begun contacting project officials. The WIFA officials said they were surprised that subrecipients were not approaching them earlier to draw on their Recovery Act funding since the subrecipients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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

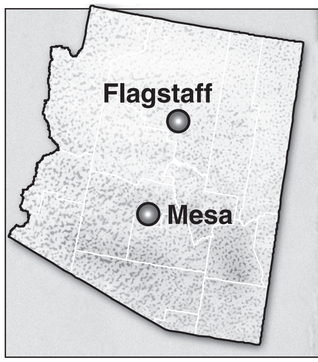
OER Plans to Monitor Subrecipients Use of Funds

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

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

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

Figure 4: Demographic and Budget Profile for Flagstaff and Mesa



	Flagstaff	Mesa
Population	60,222	463,552
Unemployment rate	**5.8**	**8.0**
General Fund revenues, FY10	$44,447,352	$328,040,000
Change from budget, FY09	**($6,007,544)**	**$23,844,475**
State-share revenue, FY10	$19,703,503	$140,346,000
Change from FY09	**($2,928,893)**	**($27,031,000)**
City employees, FY10	819	3,776
Change from FY09	**(88)**	**(268)**

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

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

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

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

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

Source: Cities of Mesa and Flagstaff data.

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

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

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

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

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

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

[22]Details of COPS funds are described on page AZ-11.

Figure 5: City of Mesa's Use of Recovery Act Funds

Living quarters at the shelter: a bed, shelf, closet rod, and quilt for each resident

Case in Point: Mesa's Community Development Block Grant

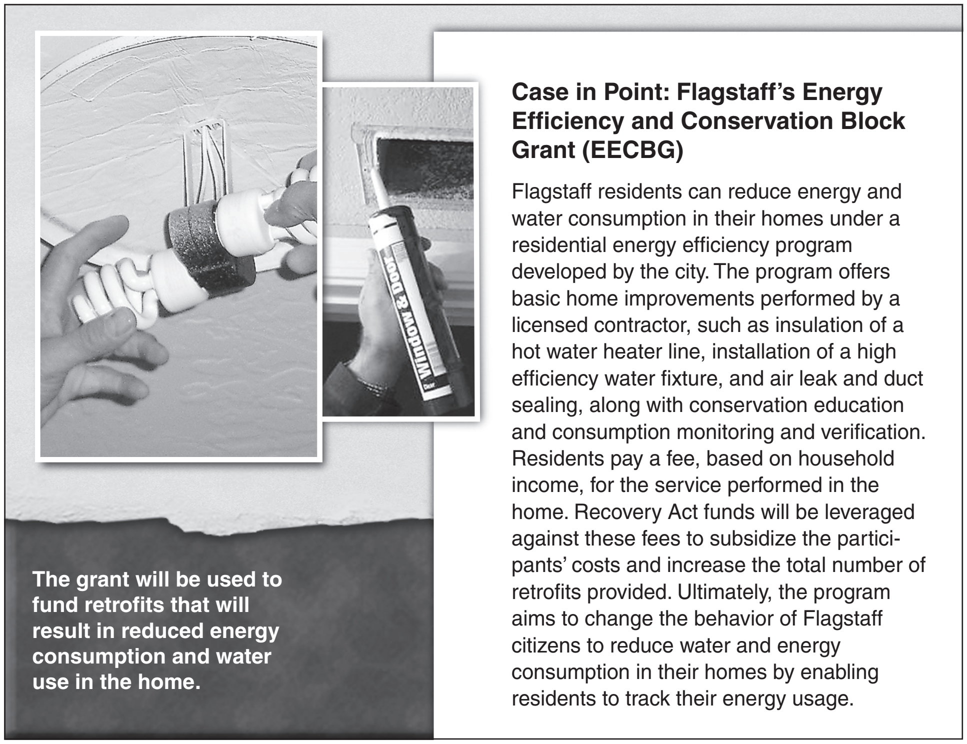
New Leaf operates the East Valley Men's Shelter, an 84-bed transitional facility serving homeless men. It has a 100 percent occupancy rate and a 120-day tenancy policy—a homeless man that agrees to a bed space in the facility will move out after 120 days. During that period, he will agree to work, save 85 percent of his earnings, and be drug and alcohol free. Recovery Act funds will support a capital improvement—adding 10 more beds, a new kitchen, renovated and expanded bathroom facilities, a physical fitness area, and a storage area for supplies.

Source: A New Leaf.

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

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

Figure 6: City of Flagstaff's Use of Recovery Act Funds



Source: City of Flagstaff.

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

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

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

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

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

Source: Cities of Mesa and Flagstaff data.

[a]Details of these Recovery Act funds are described in Appendix V.

[b]Details of the Water Infrastructure Finance Authority-funded program are described on page AZ-15.

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

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

[23]Officials also noted that program outcomes are being studied by the Brookings Institution.

[24]Single Audit is described in further detail on page AZ-29.

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

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

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

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

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

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

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

[27]"American Recovery & Reinvestment Act Review, Citywide, Interim Report, Project Number: 1100071," City of Phoenix, Arizona, November 2009.

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

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

State Comments on This Summary

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

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Staff Acknowledgments

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