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RECOVERY ACT

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

GAO-10-605SP

Appendix III: Colorado

Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of Colorado's spending under the American Recovery and Reinvestment Act of 2009 (Recovery Act).[1] 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

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

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

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

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

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

What We Found

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

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

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

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

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

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

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

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

[3]According to the State Controller's office, local governments, authorities, and special purpose authorities are political subdivisions that are legally distinct from the state.

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

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

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

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

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

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

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

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

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

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

(Dollars in millions)

Program	Allocation
Public safety (Department of Corrections)	$113.6
Elementary and secondary education	8.1
Life safety and economic capital construction[a]	6.7
Recovery Act oversight administrative costs	6.3
Other	3.6
Total	**$138.3**

Source: GAO analysis of state data.

[a]Life safety construction is done to address urgent and critical health and safety issues.

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

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

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

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

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

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

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

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

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

[8]NorthHighland, *Data Infrastructure Review*, a Report Prepared for the Colorado Department of Education (November 30, 2007).

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

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

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

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

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

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

Source: GAO analysis of CDOT data.

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

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

[10]CDOT received approval for $610,000 in additional funds for three on-the-job training projects.

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

Furthermore, in Colorado, CDOT has realized $45.9 million in savings, including $39 million resulting from lower than anticipated contract costs. Contract award cost savings generally resulted from construction contracts being awarded for amounts less than the engineers' estimates that were used to obligate funds, while the remaining savings were the result of other project related savings. According to Colorado officials, Recovery Act funding is currently the largest source of money for heavy highway construction in the state and 48 percent of the bids for Recovery Act projects were more than l0 percent lower than the state engineers' estimates. They said that because of the state of the economy, Colorado is seeing a larger number of contractors submitting bids for these projects, and as a result of this increased competition, bids are coming in lower than anticipated. This situation has resulted in CDOT being able to award contracts at costs lower than the engineers' estimates. CDOT applied the total savings, including the contract award savings, to 23 projects, including existing and new projects. To increase transparency of information related to how project savings are used, OMB recently issued guidance instructing agencies to report on their Web sites how those funds are used. Although they had not yet done so, CDOT officials said they could easily provide such information on their Web site, an action we encourage.

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

[11]The maintenance-of-effort certification is designed to prevent states from substituting federal funds for state funds.

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

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

Education Spending Has Increased as LEAs Pay for Teachers and Training

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[20]Because the state capped principal forgiveness, some projects received both principal forgiveness and a no-interest loan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[27]According to state officials, the final appropriations for fiscal year 2010 are not expected to be enacted before June 2010.

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

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

(Dollars in millions)

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

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

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

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

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

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

(Dollars in millions)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the U.S. Department of Labor and used for summer youth employment services.[34]

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

Colorado's Comments on This Summary

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

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

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

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