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RECOVERY ACT

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



GAO

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Appendix VIII: Iowa

Overview

The following summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act) spending in Iowa.¹ The full report covering all of GAO's work in 16 states and the District of Columbia is available at <http://www.gao.gov/recovery>.

What We Did

Our work in Iowa examined four programs receiving Recovery Act funds—the Weatherization Assistance Program and three education programs—as well as state and local efforts to stabilize their budgets, monitor the use of Recovery Act funds, and report the number of jobs paid for by these funds. We selected the weatherization program because it has begun to use significant amounts of Recovery Act funds, and we selected three education programs because these are the largest recipients of Recovery Act funds in Iowa. For descriptions and requirements of the programs we reviewed, see appendix XVIII of [GAO-10-605SP](#).

To review the weatherization program, we visited Iowa's Division of Community Action Agencies (DCAA), within the Department of Human Rights, which is responsible for administering the weatherization program. We also visited three local agencies—the Polk County Public Works Department in Des Moines, Mid-Iowa Community Action (MICA) in Marshalltown, and West Central Community Action in Harlan—to provide a mix of urban and rural agencies that weatherize homes using contractors or in-house staff. According to officials, the Polk County agency, located in a large urban area, uses competitive bidding for weatherization work; MICA, located in a rural area, performs most of its weatherization work using in-house staff; and West Central, also in a rural area, uses contractors but at a predetermined price. As part of this work, we also visited 18 homes that had been or were being weatherized using Recovery Act funds.²

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

²These homes were selected to provide a mix of those for which the weatherization work had been completed, the local agency was conducting a final inspection of the work, and the work by contractors or local agency work crews was in process. The selection also depended on other factors, such as being able to obtain owner or renter permission to enter the home and scheduling our visit. We accompanied local agency personnel responsible for inspecting weatherization work and had the opportunity to discuss the work with them and the owners or renters. We also observed, as appropriate, equipment readings indicating the effectiveness of air sealing measures and the use of infrared cameras to determine the extent of wall insulation.

To review the use of Recovery Act funds for education, we met with officials from the Iowa Department of Education and reviewed state grant applications, financial records, and monitoring plans.

To review state and local efforts to stabilize their budgets, we analyzed state and local budget information, including state revenue estimates, and met with state and municipal officials. We visited three Iowa localities—Council Bluffs, Des Moines, and Newton—selected to provide a mix of large and small communities and unemployment rates. We selected Council Bluffs because it is the seventh largest city in Iowa and because its unemployment rate is below the state’s average—6.2 percent compared with a state average of 7.4 percent; Des Moines because it is the largest city in Iowa and because its unemployment rate is above the state’s average—8.4 percent compared with a state average of 7.4 percent; and Newton because its population is smaller in comparison with many other localities throughout the state, and its unemployment rate is above the state’s average—9.6 percent compared with a state average of 7.4 percent.³

To review state and local efforts to report on the results of Recovery Act funds, we met with state-level officials as well as with officials at four recipients of Recovery Act funds: the Des Moines Independent Community School District, the Heartland Area Education Agency, the Des Moines Municipal Housing Agency, and Iowa State University. We discussed their most recent quarterly reporting of funds spent and jobs funded and reviewed payroll and other documents supporting their methodology for calculating hours worked and determining full-time equivalent (FTE) positions.

What We Found

- **Weatherization Assistance Program.** Iowa has significantly increased the number of homes weatherized each month using Recovery Act funds. After the U.S. Department of Labor (DOL) established Davis-Bacon prevailing wage rates for weatherization in Iowa on August 19, 2009, the state began using Recovery Act funds to weatherize homes. As of March 31, 2010, the 18 local agencies

³GAO used non-seasonally adjusted unemployment rates to compare rates between the state of Iowa and the localities in Iowa we visited. The state of Iowa had a non-seasonally adjusted unemployment rate of 7.4 percent in March 2010. State officials reported a seasonally-adjusted unemployment rate of 6.8 percent during the same period. Seasonally-adjusted unemployment rates remove the effects of cyclical events that follow a more or less regular pattern each year, such as unemployment of some construction workers in northern climates during the winter months.

implementing the program in Iowa had spent about \$14.1 million and completed weatherizing 1,176 homes, which represented about 16 percent of the state's target for Recovery Act funds.

Both the state and local agencies appear to have multi-faceted and comprehensive programs to monitor the weatherization program and use of Recovery Act funds. Specifically, each of the three local agencies we visited used the same program controls that they used under the base U.S. Department of Energy (DOE) weatherization program. While visiting homes and reviewing files, we found that the local agencies authorized all work performed and work generally appeared to meet state guidelines. However, while the three local agencies added staff and contractors in response to the increased workload, we also found that two of them did not have sufficient staff or contractors with the needed skills; as a result, they experienced problems maintaining internal controls, such as not using the same contractor to both assess the need for new equipment and install a replacement.

- **Education.** Between 2009 and 2011, the Iowa Department of Education will receive approximately \$666 million through three U.S. Department of Education (Education) programs: (1) Title I, Part A, of the Elementary and Secondary Education Act of 1965, as amended (ESEA); (2) Individuals with Disabilities Education Act, as amended (IDEA); and (3) the State Fiscal Stabilization Fund (SFSF) for education stabilization and government services. As of March 31, 2010, the department had disbursed about \$491 million in Recovery Act funds to local school districts and institutions of higher education and for government services. Of this amount, about \$332 million had been expended.

We found that the Iowa Department of Education had systems in place to monitor compliance by school districts with federal requirements for education programs and the Recovery Act. To receive SFSF funds, Iowa agreed to make progress toward specific education reforms, such as improving teacher effectiveness. However, according to state education officials, more funding is needed to modify existing reporting systems to provide some of the data for the outcome indicators used to track progress toward these reforms, such as student achievement data to measure teacher performance. Furthermore, state officials expressed concern about other challenges to implementing some of the education reforms, including limitations on disclosing personally identifiable student information to track student performance beyond high school graduation, the

confidentiality of individual teacher and principal performance evaluations, and inconsistencies between the Iowa student identification system and the National Student Clearinghouse student tracker system.

- **State and local government use of Recovery Act funds.** As of March 31, 2010, the Iowa General Assembly had approved the state's fiscal year 2011 budget, which included about \$323.9 million in Recovery Act funds for programs such as Medicaid and K-12 education. According to senior officials from the Iowa Department of Management, Recovery Act funds have enabled the state to avoid tax increases and to reduce the amount of funds drawn from the state's Cash Reserve Fund. Anticipating the end of Recovery Act funds and other one-time sources of revenue, such as the use of state reserve funds, Iowa's Governor and General Assembly implemented plans for improving the efficiency of state operations and reorganizing state agencies to reduce state expenditures. For example, as of April 15, 2010, over 2,000 eligible state employees had applied for retirement under the state's early retirement plan. Officials at three of the localities we visited—Council Bluffs, Des Moines, and Newton—said that they have used Recovery Act funds for various programs, and that these funds helped to stabilize their budgets. However, officials from two of these localities also said that they had encountered problems in applying for and administering funds from some Recovery Act competitive grants, such as the Energy Efficiency and Conservation Block Grant.
- **State monitoring and internal controls.** Iowa's State Auditor and the Iowa Accountability and Transparency Board continue to monitor controls over Recovery Act funds. While the Office of the State Auditor did not identify any material weaknesses in its fiscal year 2009 single audit report,⁴ officials said that they identified some problems with

⁴Single 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 controls 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.

internal controls over Recovery Act funds, such as inadequate monitoring of subrecipients. The state provided training on subrecipient monitoring in May 2010. The Iowa Accountability and Transparency Board identified six high-priority programs—such as the Weatherization Assistance Program and SFSF education stabilization funds—that it expects may have some difficulty in fully complying with the accountability and transparency requirements in the Recovery Act. The Board required these programs to submit comprehensive accountability plans describing how they would comply.

- **State and local recipient reporting.** In accordance with the Recovery Act, Iowa has reported to www.recovery.gov on the number of jobs funded by the act. Iowa created a centralized database and used it to calculate jobs based on data provided by state and local agency officials. Iowa has also implemented internal controls to ensure the accuracy of data, such as requiring state and local agency officials to certify that they reviewed and approved the jobs data prior to submission. We noted that the methods used to calculate hours varied at the four local recipients we visited—the Des Moines Independent Community School District, the Heartland Area Education Agency, the Des Moines Municipal Housing Agency, and Iowa State University—raising questions about the consistency of the quarterly reported jobs data.

Iowa Has Significantly Increased Efforts to Weatherize Homes and to Oversee Local Agencies

Since August 2009, when DOL established Davis-Bacon prevailing wage rates for weatherization workers, Iowa has used Recovery Act funds to weatherize 1,176 homes (see table 1). Iowa steadily increased its monthly total of weatherized homes completed using Recovery Act funds from 1 in August 2009 to 318 in March 2010 primarily by using Recovery Act funds instead of funds from the Weatherization Assistance Program's base and supplemental appropriations for fiscal year 2009 and the federal Low-Income Home Energy Assistance Program. In a letter dated February 23, 2010, DOE asked DCAA whether the program would meet a weatherization production target, established by DOE, of at least 364 homes per month by March 31, 2010. In response, DCAA officials expressed concern that DOE's target was substantially higher than Iowa's goal as identified in its State Plan, DOE's goal was not based on pertinent Iowa data, and Iowa was already exceeding the monthly production goals in its State Plan. While DCAA officials are seeking to further increase production, they cited the DOE Inspector General's concern about the risk of waste, fraud, and abuse and the need to balance increased production with program oversight and accountability.

Table 1: Homes Weatherized in Iowa by Funding Source, April 2009 through March 2010

| Month | Homes weatherized using annual appropriated funds ^a | Homes weatherized using Recovery Act funds | Total |
|----------------|--|--|--------------|
| April 2009 | 257 | 0 | 257 |
| May 2009 | 255 | 0 | 255 |
| June 2009 | 199 | 0 | 199 |
| July 2009 | 286 | 0 | 286 |
| August 2009 | 264 | 1 | 265 |
| September 2009 | 202 | 6 | 208 |
| October 2009 | 184 | 59 | 243 |
| November 2009 | 105 | 147 | 252 |
| December 2009 | 73 | 156 | 229 |
| January 2010 | 53 | 231 | 284 |
| February 2010 | 40 | 258 | 298 |
| March 2010 | 11 | 318 | 329 |
| Total | 1,929 | 1,176 | 3,105 |

Source: DCAA.

Note: Iowa began its Recovery Act weatherization activities in April 2009. Iowa considers weatherization to be complete only after the local agency's inspector has conducted the final inspection and approved the work.

^aThe Recovery Act's weatherization funds supplement DOE's base Weatherization Assistance Program appropriations and funding from the federal Low-Income Home Energy Assistance Program. According to DCAA officials, Iowa has spent all of the \$8.6 million made available through DOE's fiscal year 2009 regular and supplemental appropriations.

As shown in table 2, DCAA awarded \$38.5 million in Recovery Act funds to 18 local agencies to weatherize homes by, for example, cleaning and tuning or replacing the furnace, sealing the living space from the outside to reduce air flow, insulating exterior walls and the attic, and replacing old, inefficient refrigerators or water heaters. As of March 31, 2010, local agencies had spent about \$14.1 million of Recovery Act funds to weatherize 1,176 homes, or about 16 percent of the state's target of 7,196 homes. Furthermore, almost all of the local agencies had completed more than 10 percent of their targets for weatherizing homes using Recovery Act funds. Iowa reported that the Recovery Act's weatherization funding had created 183 full-time equivalent jobs.

Table 2: Recovery Act Funds Disbursed and Homes Weatherized by Local Agencies, as of March 31, 2010

| Local agency | Funds awarded | Funds spent | Weatherized homes | |
|------------------------------------|---------------------|---------------------|-------------------|--------------|
| | | | Target | Completed |
| Hawkeye | \$4,945,217 | \$1,735,953 | 874 | 138 |
| Polk County | 3,906,140 | 1,636,731 | 741 | 146 |
| Eastern Iowa | 3,381,630 | 1,375,352 | 653 | 76 |
| Mid-Iowa Community Action | 2,921,118 | 831,451 | 549 | 73 |
| Upper Des Moines | 2,502,927 | 1,086,801 | 486 | 101 |
| North Iowa | 2,468,182 | 1,559,054 | 403 | 93 |
| West Central | 2,407,928 | 617,761 | 469 | 81 |
| Operation Threshold | 2,285,855 | 523,485 | 445 | 18 |
| Southern Iowa Economic Development | 1,924,714 | 53,611 | 386 | 0 |
| Community Opportunities | 1,752,337 | 770,383 | 319 | 61 |
| Northeast Iowa | 1,701,371 | 553,031 | 307 | 36 |
| Southeast Iowa | 1,621,984 | 608,269 | 295 | 54 |
| Siouxland | 1,572,067 | 877,502 | 302 | 54 |
| Operation: New View | 1,527,036 | 447,652 | 291 | 69 |
| Mid-Sioux | 1,068,796 | 567,777 | 187 | 63 |
| Red Rock | 961,281 | 403,837 | 184 | 53 |
| Matura | 838,215 | 289,499 | 155 | 40 |
| South Central | 758,942 | 146,766 | 150 | 20 |
| Total | \$38,545,740 | \$14,084,915 | 7,196 | 1,176 |

Source: DCAA.

Note: DOE has made available only \$40.4 million of the \$80.8 million it has obligated to Iowa. DOE plans to make the remaining funds available once Iowa has completed weatherizing 30 percent of its target of 7,196 homes and meets specified program management objectives.

DCAA's monitoring of the local agencies' implementation of the weatherization program appears to be multi-faceted and comprehensive. It includes the following:

- *Monthly reviews or desk audits.* These reviews or audits involve reconciling the local agencies' monthly financial reports on program spending with activity reports on the weatherization of homes to ensure that they are consistent and that the local agencies are on schedule to spend their funds and to check for unusual expense charges.
- *Reviews of the agencies' annual independent auditors' reports.* As the local agencies submit these reports on their financial statements

and internal controls over financial reporting, DCAA reviews them for any identified problems.

- *On-site monitoring at each local agency that leads to a formal annual assessment or evaluation.* This monitoring includes a review of fiscal and program operations and inspections of homes that have been weatherized. DOE requires states to inspect 5 percent of homes weatherized. According to Iowa officials, DCAA inspects about 7 percent of homes weatherized and will try to sustain this rate even as more homes are weatherized with Recovery Act funds. In turn, DCAA requires local agencies to inspect 100 percent of weatherized homes. DCAA's on-site monitoring is a critical aspect of its oversight and its primary interface with the local agencies on their compliance with program requirements and the quality of their weatherization work.

Our review of DCAA's two most recent annual evaluations for MICA, Polk County, and West Central Community Action found that the on-site monitoring covered a wide range of program and state requirements.

- The program operations component included a review of compliance with state requirements for training, contracting and bid procedures, documentation of health and safety issues in weatherizing homes, general management and administrative practices, and timeliness and accuracy of monthly reporting. We noted, however, that the most recent on-site monitoring of program operations at MICA, Polk County, and West Central was more than a year ago. For example, DCAA's visits to review program operations at MICA and West Central took place in November 2007 and February 2008, respectively. Similarly, the State of Iowa Single Audit Report for the year ending June 30, 2009, found that DCAA did not monitor the program operations component for 6 of the 18 local agencies because DCAA did not have prior year findings. State officials explained that state policy and its monitoring plan approved by DOE provides for DCAA to monitor agencies more frequently if it finds significant problems and less frequently if it finds that the local agency has a sound program. According to state weatherization officials, DCAA is currently making site visits to review the program operations of all local agencies because of the large increase in funding from the Recovery Act. A DCAA official told us that, for example, the three local agencies included in our review received site visits during February and March 2010. These site visits either had not been made or the results were not available at the time that we reviewed the files.
- The fiscal operations component, among other things, examined financial transactions for accuracy and supporting documentation,

compared time sheets to determine if the hours reported agreed with payroll information, and reviewed expenses to determine if they were supported by the terms of the local agency's agreement with the state. The State of Iowa Single Audit Report found that, while DCAA monitored fiscal operations, 8 of 18 DCAA fiscal monitoring reports were not sent to local agencies within 30 days after the review, as required by the monitoring plan. DCAA said that it will make every effort to ensure that both program and fiscal monitoring reports are sent in a timely manner.

- DCAA inspected homes to determine if the work met state standards for weatherization. In cases where these inspections found that work did not meet the standards, the inspector notified the local agency that the homes had failed the inspection and directed the agency to take corrective action. For example, the DCAA inspector failed one home when he found that some floors had not been insulated to their edges, some wall insulation needed to be redone, and an exhaust fan duct had not been insulated. Local agencies did not always report their corrective actions on failed homes to DCAA in a timely manner. The State of Iowa Single Audit Report found that for three of the six home inspection folders reviewed, the local agency did not report its corrective action within 45 days of receiving the state's notice, as required by the state monitoring plan. DCAA said that it would monitor this situation more closely to ensure corrective actions are reported by the due dates.

DCAA inspections during late June and early July 2009 uncovered a more serious case. During routine program monitoring of homes weatherized by the Southern Iowa Economic Development Association (SIEDA), DCAA found numerous weaknesses in the agency's oversight of the contractors' work.

- DCAA found that work performed on numerous homes did not meet required state standards; SIEDA was not inspecting homes after they were weatherized; and the housing coordinator misled the DCAA about how the need for furnace and water heater replacements was determined. According to state officials, the housing coordinator had told DCAA that the energy auditor determined replacement needs while, in actuality, they were determined by the contractor.
- Although Recovery Act funds were not used on these homes, DCAA believed that the program weaknesses were so serious that it suspended Recovery Act funding to the agency on September 24, 2009, and required SIEDA to submit an action plan to address these

concerns. On September 29, 2009, SIEDA submitted its plan to DCAA; the plan called for discontinuing work with current furnace and weatherization contractors, developing new contracting procedures, and establishing a policy for home evaluations and inspection to ensure that all work performed is according to program standards and practices. The agency had also fired the housing coordinator.

- As of April 2010, DCAA was still working with SIEDA to revise its policies and train more contractors. According to DCAA officials, SIEDA will be required to demonstrate improved performance using other funds before the state resumes funding under the Recovery Act.

Our visits to MICA, Polk County, and West Central Community Action to review their implementation of the weatherization program found the following:

- The local agencies essentially use the same program controls to implement the weatherization program under the Recovery Act that they use for the regular DOE weatherization program. Local agency officials said program controls have been in place for years and are effective, ensuring that their agencies meet program requirements. While visiting homes and reviewing files at these agencies, we generally found that the work charged to the program was authorized and appeared to meet the state's quality guidelines. The files varied by local agency in terms of the information they contained but were generally complete and contained information essential to understanding the work.
- To respond to the increased workload from the influx of Recovery Act funds, the local agencies added staff and contractors. Specifically, Polk County increased its staff of auditors and inspectors from 4 to 13 and, as of March 2010, had increased the number of contractors weatherizing homes from 5 to 17. MICA increased its staff of auditors and inspectors from 2 to 4, added staff for a third work crew, and plans to add a second 2-person furnace crew. MICA originally performed all work in-house but has since added 3 contractors and expects to add a fourth. West Central increased its staff of auditors and inspectors from 3 to 5 and added an agency assistant director to work with contractors and Davis-Bacon requirements. West Central also increased its contractors from about 4 to 14.
- Even so, two of the agencies experienced some difficulty in maintaining internal controls over the weatherization program as they were adding staff or contractors. For example, West Central used the

same contractor to diagnose, repair, and replace problem furnaces—and did not visit homes to confirm that repairs or replacement were needed—because agency staff do not have the expertise nor the time to visit homes across West Central’s large service area, which covers 10 counties. According to state and West Central officials, the local agency requires prior agency review and approval of all furnace replacements called for by the contractor. Approval is based on the results of the agency’s on-site evaluation of the furnace at the time of the energy audit and the contractor’s written request and justification for replacement. We also found that the same West Central staff conducted both the home energy audit, which identifies the weatherization work to be performed by a contractor, as well as the final inspection of the contractor’s work. In both instances, the Executive Director and Energy/Housing Coordinator for West Central acknowledged that this dual role was not desirable. The coordinator told us that West Central has been trying to find additional furnace contractors interested in working with the agency and is considering hiring an employee to do the furnace diagnostics and tune and clean or to sub-contract for the work. West Central had no choice but to use the same staff to conduct the home energy audit and final inspection, the official said, because the agency did not want to delay the final inspection and payment to the contractor. The official also said that this situation was expected to improve with the addition of two new staff to perform inspections.

- In beginning to use contractors for weatherization work, MICA found that competitive bidding for contracts was limited because they received few bids. MICA works with three contractors, but not all contractors bid on each home. According to MICA officials, the situation will likely improve as the agency works to add contractors qualified to bid on weatherization work.

Iowa Continues to Monitor the Use of Recovery Act Funds for Education, but New Reform Requirements Present Challenges According to State Education Officials

Under the Recovery Act, Iowa will receive approximately \$666 million in Recovery Act funds through three Education programs. As of March 31, 2010, Iowa had disbursed about \$491 million to local school districts, institutions of higher education, and for government services as described below:

- *ESEA Title I, Part A.* As of March 31, 2010, Education had made available to the Iowa Department of Education an estimated \$51.5 million in ESEA Title I, Part A, funds under the Recovery Act. In turn, the Iowa Department of Education has disbursed a total of about \$16 million to school districts. These funds are intended to help school districts educate disadvantaged youth, and the Recovery Act requires these additional funds to be distributed through states to school districts using existing federal funding formulas, which target funds based on such factors as high concentrations of students from families living in poverty. On April 6, 2010, Iowa was awarded one of the first expanded ESEA Title I School Improvement Grants, for \$18.7 million for school year 2010 - 2011. These funds are intended to help improve student achievement in the nation's persistently low-performing schools identified for improvement, corrective action, or restructuring.
- *IDEA, Part B.* As of March 31, 2010, Education had made available to the Iowa Department of Education an estimated \$126.2 million in IDEA, Part B, funds under the Recovery Act. The Iowa Department of Education has disbursed a total of about \$50 million to school districts and area education agencies. IDEA, Part B, is the major federal statute supporting the provisions of early intervention and special education and related services for children and youth with disabilities.
- *SFSF.* Education allocated to Iowa a total of about \$472 million in SFSF funds, which included about \$386 million in education stabilization funds and about \$86 million in government services funds. The state had to complete two separate applications to receive the funds. Education made the first phase of SFSF funds available to the state in June 2009 and the second in March 2010. As of March 31, 2010, Iowa had disbursed a total of about \$258 million to school districts, \$80 million to public universities, and \$23 million to community colleges. It had also disbursed \$63 million in SFSF government services funds. Iowa plans to use most of the \$63 million in government services funds in 2010 for such programs as public assistance, public safety, and Medicaid.

To receive Recovery Act funds, Education required that states provide assurances concerning accountability, transparency, reporting, and

compliance with certain federal laws and regulations. The Iowa Department of Education had systems in place to monitor compliance by school districts with federal requirements for education programs prior to the receipt of Recovery Act funds. These processes were extended to the oversight of Recovery Act funds as described below.

- The department designated certain staff responsible for overseeing education funds: the Chief Financial Officer, for SFSF funds; the Title I manager, for ESEA Title I funds; and the IDEA program manager, for IDEA, part B funds. Additionally, the department's Finance, Facilities and Operations Services group analyzes annual financial reports and external audit reports to identify areas needing more department oversight. State area education agencies, which distribute the state IDEA funds regionally, also assist the state by monitoring local districts' use of IDEA funds. Some officials at the Iowa Department of Education expressed concern that recent staff reductions at the state level and a steady loss of experienced business managers in many of the school districts across the state could result in less oversight of funds at a time when more oversight might be needed due to the influx of Recovery Act funds.
- The department reviews several different reports to monitor the use of Recovery Act funds by the state's 361 local school districts. These reviews include (1) an annual certified financial report (completed by September 15, about 3 months after the end of the state fiscal year); (2) an annual financial audit performed by an external auditing firm (completed by March 31, about 9 months after the end of the state fiscal year); and (3) specifically for the Recovery Act, the quarterly recipient report that details Recovery Act funds spent and related jobs information. In addition, every quarter, the state reconciles districts' reported Recovery Act spending with expenditure information in its accounting system. The Iowa Department of Education is also audited annually by the Iowa State Auditor, who has not noted any material weaknesses in the department in the last 3 years.

To receive its initial SFSF funding allocation, the U.S. Department of Education required that each state provide several assurances, or promises, that it would meet established state funding requirements, called maintenance-of-effort, and implement strategies to advance four core areas of education reform. The U.S. Department of Education's four areas of reform and Iowa's progress towards meeting them are as follows:

- *Increase teacher effectiveness and address inequities in the distribution of highly qualified teachers.* According to Iowa

Education officials, as a result of prior actions, Iowa has highly qualified teachers dispersed across the state's high- and low-poverty districts and has not had to take other actions to address teacher quality assurances. To increase teacher effectiveness and address inequities in the distribution of highly qualified teachers, according to Iowa Education officials, the Iowa General Assembly passed legislation in 2001 establishing teaching criteria and mentoring programs, restructuring the teacher evaluation process and salaries, and requiring individual development plans and continuous education for teachers. The legislation was instrumental in raising state teaching standards and the state's national teacher quality ranking from 42nd to 26th highest in the country, according to Iowa Education officials.

- *Establish a pre-K-through-college data system to track student progress and foster improvement.* To track student progress, Iowa established a comprehensive student achievement information system in 1990. However, according to Iowa Education officials, an expansion of the state's system to track students through the college years depends on whether the state can overcome barriers such as the federal Family Educational Rights and Privacy Act and national data comparability issues. According to state officials, December 2008 amendments to the act provide additional flexibilities in sharing information, but officials continue to be concerned that the Family Educational Rights and Privacy Act limits the state's ability to share personally identifiable student information between K-12 schools and community colleges that are under the Iowa Department of Education and public universities that operate under a separate Board of Regents. State education officials said that recent discussions with the U.S. Department of Education have helped identify a resolution to this matter, but changes have not yet been implemented.
- *Make progress toward rigorous college- and career-ready standards and high-quality assessments that are valid and reliable for all students, including students with limited English proficiency and students with disabilities.* The Iowa Department of Education is currently implementing the Iowa Core Curriculum. Iowa Education officials said that the Core Curriculum was established on a voluntary basis in 2007, and in 2008 the Governor signed legislation requiring full implementation of the curriculum. According to Iowa Education officials, the Iowa Core Curriculum is closely aligned with federal standards, and it positions the state to comply with voluntary national standards. According to officials, it requires the state to go beyond establishing standards and benchmarks to define elements of classroom success, including specific skills and behavior learned in the

classroom. The enacting legislation established full implementation dates for the core curriculum of 2012 for grades 9-12 and 2014 for grades K-8, according to Iowa Education officials.

- *Provide targeted, intensive support and effective interventions to turn around schools identified for corrective action or restructuring.* Officials in the Iowa Department of Education told us that the state is currently tracking student progress, working with schools to develop remedial plans, and providing additional professional development for teachers and principals. They said that the state will continue to work with the U.S. Department of Education to improve the state's schools. However, Iowa Education officials generally disagree with Education's models for reforming low-performing schools because all four models require removal of the school principal. Iowa Education officials said that they do not believe removing the principal is necessarily effective or always appropriate, particularly at schools where poor performance is more affected by the population of students than the abilities and efforts of the principal or teachers. Iowa Education officials also said that they believe that providing states the opportunity to develop their own corrective action plans, instead of implementing one of the Department's four models, would be more effective and could work as long as the U.S. Department of Education established regulations to ensure that states are initiating constructive actions.

To receive their second phase of SFSF funding, states had to complete an application in which they described their ability to address 37 indicators and descriptors that support the four assurances agreed to in the initial application. These 37 indicators include, for example, (1) the percentage of core courses taught in the highest and lowest poverty schools by teachers who are highly qualified, (2) the percentage of limited English-proficient students who are included in state reading/language arts and mathematics assessments, and (3) total students, by school and subgroup, who graduate from high school in 4 years. For those indicators and descriptors that the states do not currently report on, states were required to provide plans for how data would be collected, and obstacles to collecting these data. In its application, Iowa reported that it collected data for 25 of the 37 indicators and provided information on how it planned to address the remaining 12 indicators and potential obstacles to obtaining data. For example, Iowa reported that it did not have a system to track student achievement data to measure teacher and principal performance, nor to determine teacher impact on student achievement in reading and mathematics in grades in which they administer these assessments. The state cited a lack of funds and personnel as potential obstacles to implementing and administering the needed data system

changes. Furthermore, Iowa Education officials reported that under Iowa law, the Iowa Department of Education was not allowed to make public individual teacher and principal performance data. In order to respond to the indicator requirements without violating individual privacy concerns, the Iowa Department of Education is working with the U.S. Department of Education to develop a means for reporting aggregated data for classes, schools, or districts instead of reporting individual student, principal, or teacher data.

The Iowa Department of Education applied for a school improvement grant on February 22, 2010, and was approved for an \$18.7 million grant on April 6, 2010. Among other things, the new grant rules increase the amount of funds that can be spent on one school from \$500,000 to \$2 million. The U.S. Department of Education's stated goal for the use of these funds is "to dramatically transform school culture and increase student outcomes in each state's persistently lowest-achieving schools." The U.S. Department of Education has specified that local school districts choose between four "school intervention models": school turnaround, closure, restart, and transformation. The models vary in approach, but require specific actions, such as replacing the principal and up to half of the staff or closing the school permanently and relocating students to nearby, higher performing schools. However, Iowa education officials cited the following short- and long-term challenges in implementing the requirements of this grant program:

- *Time frame to implement change.* According to Iowa Education officials, the U.S. Department of Education did not notify the state that it was selected for a new school improvement grant until just before the time that most school districts normally make staffing decisions and offer contract extensions for the next school year. Furthermore, school districts are required to submit their applications to the state by May 21, 2010, and will not know if their plan is approved until sometime after that date. As a result, local school districts will likely be rushed to implement changes during the 2010-2011 school year.
- *Distribution of grant funds.* The new grant program rules generally require that states identify the lowest-achieving 5 percent of ESEA Title I schools as Tier 1 schools (those that are persistently underachieving) and designate them as highest priority for grant funds. Iowa has about 120 ESEA Title I schools, meaning that 6 schools will be designated as the lowest performing 5 percent. These 6 schools will be eligible to apply for up to \$2 million to improve their performance over 3 years, while most other ESEA Title I schools will receive less

than they did in the past. In prior years, school funding was limited to \$500,000 per school, which allowed the state to fund more schools.

- *Contract negotiations.* Iowa Education officials said they expect to have to negotiate changes with the local teachers' unions on changes, such as providing longer school days and school years and releasing or transferring teachers in nonperforming schools. This could delay or limit school districts' ability to make changes at some schools.
- *Rural school districts.* Iowa Education officials noted potential problems releasing or transferring teachers or principals from nonperforming schools in the state's rural areas. Many of Iowa's 361 school districts are in rural areas that already have a shortage of education professionals. Iowa Education officials questioned whether these districts would be able to find sufficient numbers of certified and trained replacements should they be required to release staff. Some districts already have a shortage of qualified teachers for certain subjects, particularly math. Finally, some students in rural areas must travel a great distance to go to school, so that these students may need to travel even further if a school or a portion of a school closes.

Iowa State and Local Governments Said They Benefit from Use of Recovery Act Funds, but Some Localities Experienced Challenges Applying for Competitive Grants

As of March 31, 2010, the Iowa General Assembly had approved all appropriations bills for Iowa's fiscal year 2011 budget,⁵ which is based on a revised revenue estimate of approximately \$5.44 billion,⁶ and appropriates a net total of approximately \$5.28 billion from the state's General Fund. The General Assembly also included \$323.9 million in Recovery Act funds in the fiscal year 2011 budget, including about \$240.2 million for funding Medicaid-related programs,⁷ and about \$47.9 million for funding state school aid for K-12 education.⁸ However, according to officials from the Iowa Department of Management and Iowa's Legislative Services Agency, the General Assembly appropriated Recovery Act funds for Medicaid-funded programs on the assumption that Iowa would receive an extension of Recovery Act Medicaid funds. Senior officials from the Iowa Department of Management added that if there is no extension of Recovery Act Medicaid funds, the General Assembly will be able to consider a supplemental appropriation for Medicaid funds, based on enrollment and funding need, during the 2011 legislative session.⁹ Additionally, officials from Iowa's Legislative Services Agency said that, despite the allocation of Recovery Act funds for state school aid, local school districts may be required to increase property taxes to make up for any shortfall of state or local education funds. Senior Iowa Department of Management officials told us that the amount of Recovery Act funds received for fiscal year 2010 enabled Iowa to avoid tax increases and to reduce the amount drawn down from its Cash Reserve Fund.

Senior officials from Iowa's Department of Management said that the Governor recently implemented plans for improving the efficiency of state

⁵Iowa's fiscal year begins July 1 and ends June 30.

⁶On March 11, 2010, the Iowa Revenue Estimating Conference increased the estimated amount of revenues to be collected by Iowa in fiscal year 2011 from about \$5.40 billion to about \$5.44 billion.

⁷According to officials from Iowa's Legislative Services Agency, an example of a Medicaid-related program is the state resource centers. These centers pay for Medicaid services, but through an appropriation from the General Assembly independent of appropriations for other state Medicaid programs.

⁸According to officials from Iowa's Legislative Services Agency, the General Assembly appropriated all remaining Recovery Act State Fiscal Stabilization Fund monies—both the education stabilization funds and the government services funds—for state school aid for fiscal year 2011.

⁹The Recovery Act provides increased federal assistance to Medicaid through December 31, 2010; bills have been proposed in the U.S. Congress to extend the increase beyond that date.

operations to reduce state expenditures, in part to account for revenue shortfalls following the disbursement of remaining Recovery Act funds and other one-time sources of revenue, such as state reserve funds. Additionally, according to state officials, the General Assembly approved legislation including additional measures to improve efficiency in state government and reorganize state agencies.¹⁰ According to senior Iowa Department of Management officials, the efficiency improvements and reorganization proposals are estimated to achieve a combined reduction of \$270 million in expenditures in fiscal year 2011.

Among the efficiency improvements is the implementation of optional early retirement plans for eligible state employees, according to senior Iowa Department of Management and Iowa Legislative Services Agency officials. Senior Iowa Department of Management officials said that the early retirement plan is intended to reduce state personnel expenditures by about \$58 million per year beginning in fiscal year 2011 by reclassifying positions, filling only essential positions, and taking advantage of different skill sets and levels of experience that new employees would bring to their respective positions. Furthermore, officials believe that the early retirement program will help reduce the state's unemployment, provide greater diversity in state government, and expand employees' service capabilities. As of April 15, 2010, according to senior Iowa Department of Management officials, over 2,000 eligible state employees had accepted the state's early retirement offer.

We have previously noted that as experienced federal employees retire, they leave behind critical gaps in leadership and institutional knowledge, increasing the challenges government agencies face in maintaining a skilled workforce.¹¹ These consequences may also be applicable to Iowa as experienced state employees take advantage of the early retirement offer; state agencies and departments may experience difficulties administering and monitoring federally funded programs, including those funded by the Recovery Act. Should the state experience problems administering and

¹⁰According to officials from Iowa's Legislative Services Agency, the Governor implemented some plans for improving the efficiency of state operations through Executive Order 20 (Dec. 16, 2009), and the General Assembly passed additional efficiency improvements and plans to reorganize state agencies, as detailed in Iowa Senate File 2088 (Feb. 1, 2010).

¹¹For more information, see GAO, *Older Workers: Federal Agencies Face Challenges, but Have Opportunities to Hire and Retain Experienced Employees*, GAO-08-630T (Washington, D.C.: Apr. 30, 2008).

monitoring federally funded programs, the Iowa Department of Administrative Services, as well as Iowa state agencies and departments, could address these potential issues by creating and implementing policies to address leadership and knowledge gaps. For example, the state could choose to implement policies requiring new employees to complete additional training and mentoring programs to help them better understand how to effectively carry out their responsibilities. Commenting on our draft report, senior officials from the Iowa Department of Management said they do not believe that the early retirement program will impair state government operations; they also said services would continue to be provided. Officials added that training will be provided to new employees as required by individual Iowa state agencies and departments.

We visited three localities in Iowa, including two localities we visited in 2009, to discuss the use of Recovery Act funds by local governments (see table 3). Local municipal governments benefited from the use of Recovery Act funds under various programs, according to officials we spoke with. In addition, some localities we visited cooperated with other entities to obtain Recovery Act grants. However, some local government officials expressed concern about the process for applying for and administering some Recovery Act competitive grants.

Table 3: Demographics of Localities Visited to Address Use of Recovery Act Funds

| Local Government | Population ^a | Locality Type | Unemployment Rate, March 2010 (percent) ^b | 2009-2010 Operating Budget ^c |
|------------------------|-------------------------|---------------|--|---|
| City of Council Bluffs | 59,536 | City | 6.2 | \$63,854,868 |
| City of Des Moines | 197,052 | City | 8.4 | \$625,633,246 |
| City of Newton | 15,042 | City | 9.6 ^d | \$12,385,302 |

Sources: GAO analysis of U.S. Census Bureau population data and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics; City of Council Bluffs; City of Des Moines; and City of Newton.

^aCity population data are from the latest available estimate, July 1, 2008.

^bUnemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. The state of Iowa had a non-seasonally adjusted unemployment rate of 7.4 percent in March 2010, and had a seasonally-adjusted unemployment rate of 6.8 percent during the same period. Rates are a percentage of the labor force.

^cThe timeframe for the 2009-2010 budgets of all localities we interviewed is July 1, 2009-June 30, 2010.

^dThe unemployment rate reflects Jasper County, Iowa (where Newton serves as the county seat).

Council Bluffs

- Council Bluffs, according to city officials, was awarded approximately \$6.2 million in Recovery Act funds from federal and state sources, and had received approximately \$694,000 in Recovery Act funds as of May 1, 2010. Officials from Council Bluffs said that the city used Recovery Act funds to fund various projects (see table 4), such as rehabilitating several city roads and bike trails and renovating city buildings to improve energy efficiency. Officials also noted that the city filed a joint application with the City of Carter Lake and Pottawattamie County to obtain funding from the Edward Byrne Memorial Justice Assistance Grant. However, city officials said they did not initially have sufficient capabilities to complete the application process and electronically report data pertaining to the Recovery Act Energy Efficiency and Conservation Block Grant program.¹² To resolve the issue, city officials said the city used a consultant to finish the city’s application for funding and complete the grant’s periodic reporting requirements.

Table 4: Select Sources of Recovery Act Funding to Council Bluffs

| Agency | Program | Use of funds | Amount awarded |
|--|--|---|----------------------|
| Iowa Department of Transportation | Highway Infrastructure Investment Program | Reconstructing a segment of College Road in Council Bluffs | \$2,300,000 |
| DOE | Energy Efficiency and Conservation Block Grant | Replacing chillers, mechanical systems, and windows in the Council Bluffs City Hall and other municipal buildings | 571,500 |
| U.S. Department of Housing and Urban Development | Community Development Block Grant – Recovery | Constructing roads and other infrastructure for new low- and medium-income housing | 285,520 |
| U.S. Department of Justice | Edward Byrne Memorial Justice Assistance Grant | Purchasing law enforcement equipment and training, including installing new training simulators and making additional improvements to a local shooting range ^a | 504,215 ^b |

Source: City of Council Bluffs.

^aAccording to Council Bluffs officials, their police department shares the local shooting range with other federal, state, and local law enforcement agencies based in Iowa and Nebraska.

^bCouncil Bluffs, the City of Carter Lake and Pottawattamie County received a joint allocation of \$541,500; of that amount, Council Bluffs received \$504,215.

- Council Bluffs officials said that the city has experienced positive economic growth over the past 2 years, and the city projected

¹²The Recovery Act Energy Efficiency and Conservation Block Grant is intended to fund, through formula and competitive grants, energy efficiency and conservation programs and projects in communities, as well as renewable energy installations on government buildings. The grant is administered by DOE.

increases in revenues and expenditures for fiscal year 2010-2011 in comparison with the previous fiscal year.¹³ City officials also said that Council Bluffs benefited financially from the use of Recovery Act funds; for example, the city avoided using capital funds to pay for road projects funded by the Recovery Act, and maintained its bond rating to avoid higher interest rates on bonds issued by the city.

- City officials said that Council Bluffs does not have a strategy to address any budgetary shortfalls after they use available Recovery Act funds. However, city officials said that the city should not experience significant financial difficulties because many of the Recovery Act funds are being used for one-time expenses, such as road projects.

Des Moines

- Des Moines was awarded more than \$18 million in Recovery Act funds from federal and state sources and, according to city officials, had received approximately \$3.7 million in Recovery Act funds as of April 30, 2010. Des Moines officials said that the city used Recovery Act funds to rehabilitate roads, construct bike trails, and expand community service programs, as well as for other initiatives (see table 5). City officials also said that Des Moines cooperated with other entities to obtain funding for several Recovery Act grants.¹⁴ However, these officials said the process to apply for competitive grants, such as the Recovery Act Energy Efficiency and Conservation Block Grant, has been frustrating because DOE continues to change its mind on what is an acceptable project. For example, according to city officials, DOE changed its mind three times before finally disapproving a proposed \$555,000 mortgage buy-down program.¹⁵ In another case, DOE told Des Moines officials they would be able to implement a revolving loan program that would allow the city to issue itself loans for, among other

¹³Council Bluffs projected total revenues of about \$98.4 million for fiscal year 2010-2011, which is about a 12.8 percent increase in comparison to total revenues of \$87.2 million for fiscal year 2009-2010. Council Bluffs also projected total expenditures (including operating, capital, and enterprise expenditures) of about \$97.9 million for fiscal year 2010-2011, which is about a 16.3 percent increase in comparison to total expenditures of about \$84.2 million for fiscal year 2009-2010.

¹⁴Des Moines partnered with cities and counties in the Des Moines metropolitan area in applying for funding from the Recovery Act Energy Efficiency and Conservation Block Grant program, the Edward Byrne Memorial Justice Assistance Grant program, and an Iowa Office of Energy Independence grant program.

¹⁵According to Des Moines officials, the mortgage buy-down program would allow the city to help homeowners refinance their residences to obtain funding for energy improvements.

things, retrofitting public buildings with energy improvements. DOE later told city officials the revolving loan program would not be an eligible activity. Furthermore, city officials said that the Des Moines City Council had approved a grant application for the Recovery Act Assistance to Firefighters Fire Station Construction Grant in June 2009.¹⁶ However, city officials said they did not receive notification from the Federal Emergency Management Agency about the status of their application until April 2010, when city officials were informed that the city’s application was denied.

Table 5: Select Sources of Recovery Act Funding to Des Moines

| Agency | Program | Use of funds | Amount awarded |
|--|--|---|------------------------|
| Iowa Department of Transportation | Transportation Enhancement | Constructing multipurpose trail extensions of the Principal Riverwalk along the Des Moines River | \$2,849,000 |
| U.S. Department of Housing and Urban Development | Community Development Block Grant – Recovery | Expanding neighborhood infrastructure rehabilitation programs (e.g., street, curb, sidewalk repairs) and demolition programs for neighborhood redevelopment | 1,152,886 |
| | Homelessness Prevention and Rapid Rehousing | Assisting individuals and families at risk of becoming homeless with temporary rent or utility assistance, and providing temporary housing assistance to individuals and families already experiencing homelessness | 1,763,874 |
| U.S. Department of Justice | COPS Hiring Recovery Program (CHRP) | Creating nine additional police officer positions for 3 years, with an additional year funded by the City of Des Moines, to support community policing efforts | 2,191,806 |
| | Edward Byrne Memorial Justice Assistance Grant (JAG) | Improving forensic capabilities, upgrading technology, and funding equipment to improve officer safety | 1,178,833 ^a |

Source: City of Des Moines.

^aLocal governments in the Des Moines metropolitan area, including Des Moines, the City of Altoona, and Polk County, received a joint award of \$1,502,161. Of that amount, Des Moines received \$1,178,833.

- Des Moines officials said the city is facing a structural deficit,¹⁷ in part due to reductions in property taxes and other sources of revenue, as well as because of increased costs of health insurance and other

¹⁶The Recovery Act Assistance to Firefighters Fire Station Construction Grant is intended to provide financial assistance directly to fire departments on a competitive basis to build new or modify existing fire stations and is administered by the Federal Emergency Management Agency.

¹⁷A structural deficit is a budget deficit that results from a fundamental imbalance in a government’s revenues and expenditures, as opposed to based on short-term factors.

employee benefits. To address the deficit, Des Moines intends to eliminate 58 full-time equivalent positions in fiscal year 2011-2012 and has reduced services, such as reducing hours of operation for public libraries, and changed some of its business practices, such as increasing contracting for city services.¹⁸ Projected reductions in revenue in fiscal year 2010-2011 prompted the Des Moines City Council to approve decreases in expenditures in the current fiscal year as well.¹⁹

- City officials noted, however, that the use of Recovery Act funds mitigated the effects of recent budget reductions. Specifically, city officials said that funds for the COPS Hiring Recovery Program allowed Des Moines to fund positions for nine police officers and funds from the U.S. Department of Housing and Urban Development provided much needed neighborhood redevelopment and homelessness prevention programs. Transportation funding played an important role in allowing the city to move forward on important capital improvement projects. Des Moines officials said that once they expend available Recovery Act funds, they plan to reduce funding for these programs to pre-Recovery Act funding levels.

Newton

- As of May 1, 2010, Newton was awarded approximately \$1.3 million in Recovery Act funds from state sources, and according to city officials, has been reimbursed about \$701,000 for expenses related to Recovery Act-funded projects. Newton officials said that the city used Recovery Act funds to perform overlay projects on several city streets and replace an aeration basin at Newton's water treatment facility (see table 6).

¹⁸A full-time equivalent is the number of hours that represent what a full-time employee would work over a given time period, such as a year or a pay period.

¹⁹Des Moines projected total revenues of about \$639.2 million for fiscal year 2010-2011, which is about a 12.9 percent decrease in comparison to total revenues of about \$733.6 million in fiscal year 2009-2010. Additionally, Des Moines projected total expenditures (including for operating and capital expenditures) of about \$701.3 million for fiscal year 2010-2011, which is about a 8.9 percent decrease in comparison to total expenditures of about \$770.2 million for fiscal year 2009-2010.

Table 6: Select Sources of Recovery Act Funding to Newton

| Agency | Program | Use of funds | Amount awarded |
|---|---|---|------------------------|
| Iowa Department of Natural Resources and Iowa Finance Authority | Clean Water State Revolving Fund | Replacing aeration basin at Newton's water treatment facility | \$684,000 ^a |
| Iowa Department of Transportation | Highway Infrastructure Investment Program | Performing road overlay projects on several streets in Newton | \$620,472 |

Source: City of Newton.

^aNewton officials said that the city obtained \$684,000 in loans in lieu of grants (of which \$136,000, or about 20 percent, is forgivable).

- Newton expects to receive more revenues in fiscal year 2010-2011 than it did in the previous fiscal year, but it also expects higher total expenditures for the same period.²⁰ City officials noted, however, that Newton benefited financially from the use of Recovery Act funds; for instance, the city avoided capital expenditures for future road repairs and anticipates it can reduce maintenance costs for its water treatment facility.
- Newton officials said that the city does not have a strategy to address any budgetary shortfalls once it uses available Recovery Act funds because the Recovery Act funded one-time expenses for capital improvements to Newton's roads and water treatment facility.

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

Iowa's State Auditor and Accountability and Transparency Board continue to monitor controls over Recovery Act funds, as discussed below:

- Iowa's fiscal year 2009 comprehensive annual financial report and its fiscal year 2009 single audit report were issued on December 18, 2009, and March 31, 2010, respectively. The State Auditor's office issued a qualified audit opinion on the State of Iowa's financial statements because of a significant (40 percent) reduction in the office's fiscal year 2009 appropriation. Specifically, according to the State Auditor, the state auditor's office could not sufficiently audit the state's general fund and other governmental activities because of the office's limited

²⁰Newton projected total operating revenues of about \$12.3 million for fiscal year 2010-2011, which is an increase of about 0.7 percent in comparison to operating revenues of about \$12.2 million for fiscal year 2009-2010. Newton also projected operating expenditures of about \$12.9 million for fiscal year 2010-2011, which is about a 4.2 percent increase in comparison to operating expenditures of about \$12.4 million for fiscal year 2009-2010.

funding. In the state's fiscal year 2009 Single Audit report, the State Auditor's office noted that it did not identify any material weaknesses.

- A State Audit official told us that Iowa's single audit covered almost all (99.54 percent) of the Recovery Act funds received in fiscal year 2009, and that it performed some testing of recipient reports submitted during fiscal year 2010. Furthermore, a State Audit official told us that the audit found that some departments receiving Recovery Act funds, such as Iowa's Department of Education, lack formal written policies for reviewing and approving subrecipient reports. The official also found that although subrecipient reports are reviewed for reasonableness, specific procedures are not applied to determine whether the financial amounts and number of jobs reported are supported by adequate documentation. The State Auditor's office recommended that the Department of Education implement written policies and procedures for reviewing recipient reports submitted by school districts to ensure that reported expenditures are allowable and that reporting is complete. In March 2010, the Iowa Department of Education submitted a Recovery Act Funds Monitoring Plan to the U.S. Department of Education for approval.
- Iowa's Accountability and Transparency Board is composed of representatives from the Iowa Governor's Office, Department of Management, Auditor's Office, the Legislature, local governments, and local citizens. The Iowa Accountability and Transparency Board's Internal Control Evaluation Team surveyed 82 programs and identified 6 high-priority programs—such as the Weatherization Assistance Program and the SFSF education stabilization funds—which it expects may have some difficulty in fully complying with the accountability and transparency requirements in the Recovery Act. The board required that these high-priority programs submit comprehensive accountability plans for the board's review of Recovery Act activities. The board accepted the comprehensive accountability plans of the high-priority programs in December 2009. The board plans to establish an on-time audit process, assessment of needs for additional oversight, and a method to confirm Recovery Act information reported on the state's dashboard feature—a user-friendly search capability to provide detailed information on how and where Recovery Act funds are spent. Despite budget cuts and layoffs, the state is taking steps to achieve these goals, including the recent use of targeted site visits and recipient surveys.
- At the recommendation of State Audit and Department of Management officials, the Iowa Department of Public Health held additional training

on subrecipient reporting for high-priority programs and other Recovery Act programs on May 3, 2010. We reported in December 2009 that the U.S. Department of Justice and the DOE Office of the Inspector General provided training on federal procurement guidelines and fraud prevention on October 27, 2009.²¹

- In September 2009, we suggested that Iowa could use its “Results Iowa” Web site²² to demonstrate how Recovery Act funding is affecting key performance measures, such as the state’s unemployment and other key economic indicators.²³ We also suggested that Iowa could integrate information from the Results Iowa Web site with its Economic Recovery Web site’s proposed dashboard feature. In response, a senior official from the Office of the Governor said that the state has yet to act on the suggestion because funding and staff capacity in Iowa’s state government are very stressed with other components of Recovery Act implementation. The official said that the state hopes to expand Recovery Act accountability and transparency mechanisms as time and resources allow.

Iowa Reported on Jobs Funded Using Recovery Act Funds

Iowa’s centralized database and validation and certification processes have helped to ensure the accuracy of data, reported jobs, and other information related to the use of Recovery Act funds to the federal government, as described below:

- On October 10, 2009, January 15, 2010, and April 10, 2010, Iowa submitted detailed reports to the federal government on the Recovery Act funds that the state received directly from federal agencies, including Recovery Act expenditures and the number of jobs funded by the Recovery Act. The Iowa Department of Management used a centralized database, created by Department of Management and Department of Administrative Services personnel, to report Iowa’s Recovery Act information to www.federalreporting.gov. The centralized database calculated the quarterly number of jobs on the basis of data, such as the number of hours worked reported by state

²¹GAO, *Recovery Act: Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability (Appendixes)*, [GAO-10-232SP](#) (Washington, D.C.: Dec. 10, 2009).

²² <http://www.resultsiowa.org>

²³GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Appendixes)*, [GAO-09-1017SP](#) (Washington, D.C.: Sept. 23, 2009).

agency and locality officials, and divided hours worked by 520, one-quarter of a 2,080 hour work year. State officials told us that they used a centralized database to help ensure the accuracy and consistency of the information reported. However, some localities, such as public housing and urban transit agencies, which receive their funding directly from federal agencies and not through the state, report Recovery Act information to www.federalreporting.gov and not through the state's centralized reporting database.

- The development of the centralized database was facilitated by the Iowa Recovery Act implementation executive working group. This working group was created in March 2009 to provide a coordinated process for (1) reporting on Recovery Act funds available to Iowa through various federal grants, and (2) tracking the federal requirements and deadlines associated with those grants. A larger implementation working group—made up of representatives from 24 state agencies—is led by the executive working group and assisted by groups focused on implementation topics such as budget and tracking, intergovernmental coordination, and communication.
- Iowa officials told us that they developed internal controls to help ensure that the data submitted to federal entities are accurate. Specifically, Iowa inserted validation processes in the database to help identify and correct inaccurate data as they were entered. Officials told us that these validation processes generally worked and identified inaccuracies in the data. In addition, state agency and locality officials were required to certify their review and approval of their agency's information before submitting it to the state's centralized database and the federal Web site. These certifications are intended to help ensure responsibility for accurate information.
- In February 2010, an official from the state's accounting office reconciled Recovery Act revenues and expenditures reported in the state's centralized accounting system for departments that use the system. Some state agencies, such as the Board of Regents, do not report to the state's centralized accounting system. Accordingly, the state does not reconcile Recovery Act revenue and expenditure data for those agencies. The Chief Financial Officer for the Iowa Department of Education said that he reviews the Department of Administrative Services' monthly financial reports for the Iowa Department of Education to verify fund disbursements to the Board of Regents.

- The recipient report reconciliations prepared by state accounting personnel identified variances between the revenues and expenditures reported to the federal government and the amounts reported in the state's centralized accounting system. The analysis of the variances will help accounting and department officials correct recipient reports and accounting records. However, the reconciliations do not summarize the amounts and reasons that reports and the accounting records were misstated. As a next step, Iowa could summarize these reconciliations to assist state officials in identifying which departments have problems meeting their recipient reporting requirements and identify areas where subrecipients need additional training. Summarizing reconciliations could also help Iowa officials identify systemic reporting problems affecting multiple departments. When we raised this matter to state officials, they said that they thought such an analysis would be useful and said that they would work to implement it in the future as resources allow.
- In the April 2010 reporting period, state officials said that their centralized reporting process worked well. As of April 8, 2010, 2 days prior to the reporting deadline, approximately 99 percent of the prime recipient reports submitted by the state of Iowa were successfully validated by OMB. An Iowa state official noted that the system illustrates for the public how Recovery Act funds are spent and believes the system could be useful in reporting the use of non-Recovery Act funds in the future.
- Each quarter, recipients of Recovery Act funds are required to report jobs funded by the Recovery Act. OMB and the state of Iowa have both provided guidance on how to report on jobs funded. Iowa's most recent reporting guidance, distributed on February 26, 2010, directed fund recipients to report hours by either (1) summing up the hours worked each pay period in the quarter or (2) counting the total days worked each quarter and multiplying by 8, or some portion thereof for less than full-time employees. For the reporting cycle ended March 31, 2010, we reviewed selected education and housing entities to document the methods that entities use to calculate hours worked. We visited four local recipients—the Des Moines Independent Community School District, the Heartland Area Education Agency, the Des Moines Municipal Housing Agency, and Iowa State University—where we noted that the methods used to calculate hours varied. We found that the Des Moines Independent Community School District and Iowa State University estimated hours worked by dividing each employee's quarterly salary by an average hourly salary or wage rate. The average hourly salary was determined based on employee contracts. For

example, the Des Moines Independent Community School District calculated an average hourly wage for teachers based on a 195-day teacher's contract, and Iowa State University calculated an average hourly salary for instructors and administrators based on a 260-day full-time contract. The Heartland Area Education Agency reported an estimate of actual hours worked based on a standard teacher contract calendar of work days, which excludes holidays and other school breaks. It was able to do so because it has fewer than 100 employees. The Des Moines Municipal Housing Agency reported actual hours worked based on Davis-Bacon payroll reports supplied to them by the contractor. The Heartland Area Education Agency reports estimated actual hours worked so it reports few or no hours worked during the summer months for employees working a standard school year calendar. The Des Moines Independent Community School District and Iowa State University report hours based on salaries paid over a 12-month period, which means they report hours worked during the summer regardless of whether the employees are working. Although all four methodologies appear to be reasonable, the reported hours worked, based on the methodologies, could be different raising questions about the consistent reporting of jobs data.

State Comments on This Summary

We provided the Governor of Iowa with a draft of this appendix on May 4, 2010. The Director, Iowa Office of State-Federal Relations, and the Deputy Director of the Iowa Department of Economic Development, responded for the Governor on May 7, 2010. Officials agreed with our findings. The officials also offered technical suggestions, which we have incorporated, as appropriate.

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