

May 2010

RECOVERY ACT

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



GAO

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Appendix X: Michigan

Overview

This appendix summarizes GAO's work on the sixth of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)¹ spending in Michigan. 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 Michigan focused on the (1) use of Recovery Act funds for selected programs, (2) approaches taken by Michigan to provide accountability over Recovery Act funds, and (3) impacts of these funds. We reviewed specific programs funded under the Recovery Act related to public housing and dislocated worker training. In addition to these programs, we obtained and reviewed expenditure details and other information on the state's use of State Fiscal Stabilization Fund (SFSF) government services funds. We also reviewed the state's and selected localities' fiscal condition and use of Recovery Act funds. We considered selected reports to the federal government by recipients of Recovery Act funds as well as oversight and accountability practices including selected financial statement audit reports and selected Single Audit reports at both the state and local levels. We selected these program areas and activities because they had a number of risk factors, including the receipt of significant amounts of Recovery Act funds or a substantial increase in funding from previous years' levels. These program areas and activities also provided an opportunity for us to consider the design of internal controls over the program areas and activities as well as those put in place to obtain and report information to the federal government on Recovery Act spending and jobs created or retained. To address financial management and internal control challenges we previously reported on, we followed up on actions taken and those planned by the Michigan Department of Education (MDE) and Detroit Public Schools (DPS), and state and local agencies with responsibility for the state's Workforce Investment Act (WIA) Summer Youth Employment Program. For descriptions and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

We performed our work at state and local agencies responsible for implementing and monitoring and overseeing the programs. For our review of public housing, we visited two public housing authorities that we visited in prior rounds—Detroit and Lansing—and two additional

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

public housing authorities—Port Huron, and Mount Clemens, as well as the U.S. Department of Housing and Urban Development (HUD) Detroit Field Office. For our review of the WIA Dislocated Worker and Summer Youth Employment Programs, we met with officials from the Michigan Department of Energy, Labor and Economic Growth—the state agency responsible for administering these programs—as well as officials from two local workforce agencies.

We continued to track the use and impact of Recovery Act funds on state and local fiscal stabilization. We met with state budget officials and local officials from the cities of Flint and Lansing to assess the economic challenges they faced and the Recovery Act’s impact on their communities. To understand the state’s Recovery Act oversight and accountability efforts, we visited with officials from the Economic Recovery Office, Office of the Auditor General (OAG), Office of Internal Audit Services (OIAS), and the Detroit Office of Auditor General. We also reviewed the most recent single audit reports and met with officials responsible for oversight and monitoring for the City of Flint and the City of Lansing. We reviewed the most recent single audit reports for three of the four public housing authorities that we visited. We did not review the other because it was not complete at the time of our review. Officials with the Lansing Housing Commission told us that their audit for the fiscal year ended June 30, 2009, was in process and that HUD had granted an extension of time.

Finally, to understand the state’s experience in meeting the March 31, 2010, Recovery Act reporting requirements, we focused our work on the recipients’ methodology for computing jobs data and reviewed steps recipients took to assess the quality of the data. We discussed these issues with state and local officials with responsibilities for recipient reporting and reviewed documentation used by recipients to support the number of jobs reported.

What We Found

- **Public Housing Capital Fund.** Public housing authorities (PHA) in Michigan received over \$53 million in Recovery Act Public Housing Capital Fund formula grants. PHAs in Michigan are using these funds for activities including plumbing improvements and kitchen renovations at apartment complexes and single family home rehabilitations. All public housing authorities in Michigan met the March 17, 2010, deadline for obligating 100 percent of these funds. According to HUD, as of May 1, 2010, 122 housing agencies had drawn down approximately \$22 million. Officials of the four public housing

authorities we visited reported successfully meeting difficulties associated with Recovery Act requirements. For example, officials from the Detroit public housing authority said that documenting compliance with the Recovery Act's Buy America requirement has been a challenge because they did not have a process in place prior to the Recovery Act to address this requirement. Officials from HUD's Detroit Field Office told us that although they successfully instituted additional monitoring protocols for Recovery Act grants, this work limited staff availability to focus on other ongoing public housing program areas.

- **Education.** The U.S. Department of Education (Education) allocated \$1.592 billion in SFSF moneys to Michigan, of which \$1.302 billion are education stabilization funds and \$290 million are government services funds. Michigan used its education stabilization funds primarily for teacher salaries, and its government services funds primarily for public safety programs in fiscal year 2009. In addition, Education allocated Michigan \$390 million for Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended (ESEA)—which Michigan schools used to pay for salaries for academic counselors, social workers, tutors, and other specialists—and \$414 million for Parts B and C of the Individuals with Disabilities Education Act, as amended (IDEA)—which Michigan used to pay salaries for teachers of students with cognitive impairment, school psychologists, and social workers. In our September bimonthly Recovery Act report we noted that to help provide accurate and timely Recovery Act reporting, MDE, in coordination with DPS, needed to implement policies and procedures to provide reasonable assurance that education-related Recovery Act funds are reported accurately and timely, that jobs retained and created are accurately and timely reported, and that funds are used only for allowable purposes. MDE has begun implementing a monitoring plan, and DPS has taken actions to improve its internal controls.
- **WIA Dislocated Worker Program.** Michigan received approximately \$78 million in WIA Dislocated Worker Program Recovery Act funds. As of March 31, 2010, Michigan and its local areas had drawn down at least 34 percent of these funds. Michigan officials reported that despite a nearly 43 percent reduction in formula funds from the previous program year, they were able to nearly double the number of dislocated workers receiving intensive services and training compared to the same period in the previous year. The state also reported that as of January 31, 2010, nearly 16,000 dislocated workers are in training. State officials said Recovery Act funds are primarily used to place

dislocated workers in existing state training initiatives, by using Individual Training Accounts (ITA).² Detroit and Grand Rapids reported that they used or intend to use Recovery Act funds primarily to establish ITAs for dislocated workers in training, although to a limited extent they have used other training options emphasized by the U.S. Department of Labor (Labor), including on-the-job-training and contracting with institutions of higher education.

- **WIA Summer Youth Employment Program.** Michigan was allotted approximately \$74 million in WIA Youth Program Recovery Act funds. The WIA Youth Program is designed to provide low-income, in-school and out-of-school youth with services that lead to educational achievement and successful employment. The Department of Labor issued guidance encouraging states to use Recovery Act funds for summer employment. Officials told us that as of March 31, 2010, a total of \$55.9 million had been expended and met the state's enrollment goal by serving over 21,000 youth in Michigan's Summer Youth Employment Program. Our prior review of Detroit's program identified a number of internal control challenges involving payroll preparation and distribution and program eligibility determinations and documentation. Detroit officials addressed our payroll findings by (1) streamlining the check distribution process, (2) moving to a larger distribution center, and (3) developing a procedures manual. To address issues of eligibility determination and documentation, Detroit officials developed a procedures manual, increased training of contractor staff, and are working with an advisory board to clarify criteria to be used for eligibility determinations.
- **State and local governments' fiscal condition and use of Recovery Act funds.** Michigan continues to face economic challenges. In March 2010, the state's unemployment rate was 14.9 percent, the highest in the nation. For the fiscal year ending September 30, 2010, Michigan expects to use almost \$1.1 billion in funds made available as a result of the increased Federal Medical Assistance Percentage (FMAP) to support the state's general fund. In response to a projected \$1.497 billion shortfall in fiscal year 2011 as Recovery Act funding slows, Michigan's Governor proposed a series of cost reductions and restructuring of the state's sales and use taxes. Flint city officials told us that Recovery Act funds provided the city

²Except in limited circumstances, WIA requires the use of individual training accounts (ITAs) through which WIA participants purchase services from training providers.

with temporary relief but had little effect on the city's fiscal stability because of continuing economic pressures. Lansing city officials said that the city's economic situation would have been much worse without Recovery Act funds.

- **Recipient reporting.** Recipients' processes for calculating jobs and reviewing data varied for the quarter ending March 31, 2010. Office of Management and Budget's (OMB) guidance states that recipients are to include jobs created and retained from subrecipients and vendors in their quarterly reports to the maximum extent practicable. We found that the Department of Energy, Labor, and Economic Growth (DELEG) did not do so. In addition, Detroit Public School (DPS) officials told us that their initial report to the Michigan Department of Education did not include staff jobs paid for with SFSF funds or contractor jobs paid for with Recovery Act funds. When we brought this to the attention of DPS officials in April 2010, they discussed the matter with MDE and subsequently submitted an amended report. ERO officials told us that they will work with DELEG to address recipient reporting requirements.
- **Oversight and accountability efforts.** Michigan's OAG and OIAS serve key roles in overseeing Recovery Act-funded programs in Michigan. OAG officials told us that they are including Recovery Act funds as part of their Single Audit work at state agencies. These officials also told us that it would be helpful for OMB to clarify the criteria that the audit community should use for auditing recipient reports and complying with the "Buy American" provision for Recovery Act spending. OIAS officials told us that they assigned 2 of their 45 internal auditors to work full-time on programs funded by the Recovery Act. Based upon their assessment of risks, OIAS officials selected eight key programs for review. They plan to evaluate the agencies' ongoing monitoring activities. OIAS officials also told us that they would include steps as appropriate in their audit work plans for agencies that our work identifies as having internal control challenges.

Housing Agencies Continue to Make Progress on Public Housing Capital Fund Recovery Act Projects

Michigan has 131 public housing authorities (PHAs), 122 of which received Recovery Act-funded Public Housing Capital Fund (PHCF) grants.³ These grants are intended to improve the physical condition of, and modernize, public housing units. Michigan PHAs received over \$53 million in Recovery Act PHCF formula grants. The Recovery Act mandated that housing agencies obligate 100 percent of these funds within 1 year of award by HUD—by March 17, 2010—representing a shorter timeline than that for the regular PHCF grant.⁴ Michigan PHAs also received approximately \$41 million through the regular fiscal year 2009 PHCF grant program.⁵ We met with officials from four PHAs—the Detroit, Lansing, Mount Clemens, and Port Huron Housing Commissions—to better understand how Michigan PHAs are using and monitoring the Recovery Act funds.⁶ We also met with officials from HUD’s Detroit Field Office (Field Office) to better understand their interactions with PHAs regarding meeting the obligation deadline and steps they are taking to oversee Recovery Act spending, as well as to obtain their perspectives on implementing Recovery Act requirements, such as the recipient reporting and Buy American provisions.

Michigan PHAs Successfully Met Obligation Deadline

According to HUD officials, Michigan’s 122 PHAs that received Recovery Act funds obligated 100 percent of Recovery Act PHCF formula grants prior to the obligation deadline of March 17, 2010, and as of May 1, 2010, had drawn down approximately \$22 million (see fig. 1).

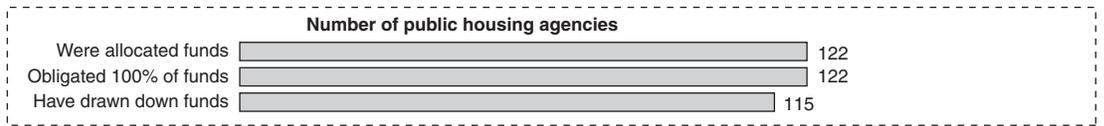
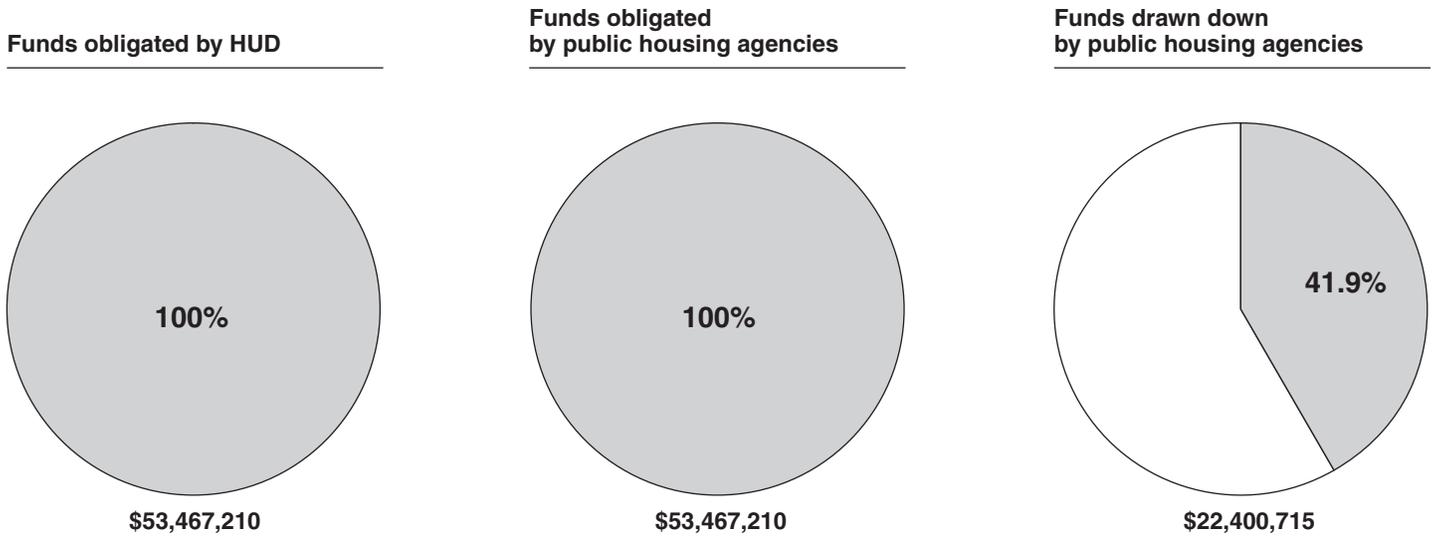
³The remaining nine PHAs did not receive PHCF grants because they only administer the U.S. Department of Housing and Urban Development’s Section 8 rental assistance program and do not manage any housing developments themselves.

⁴In contrast to Recovery Act deadlines, PHAs must generally obligate 100 percent of regular PHCF grant funds within two years.

⁵These funds are in addition to fiscal year 2010 regular PHCF grants.

⁶Recovery Act PHCF grants awarded to selected PHAs are as follows: Detroit, \$17,275,908; Lansing, \$1,997,093; Mount Clemens, \$582,013; and Port Huron, \$946,655.

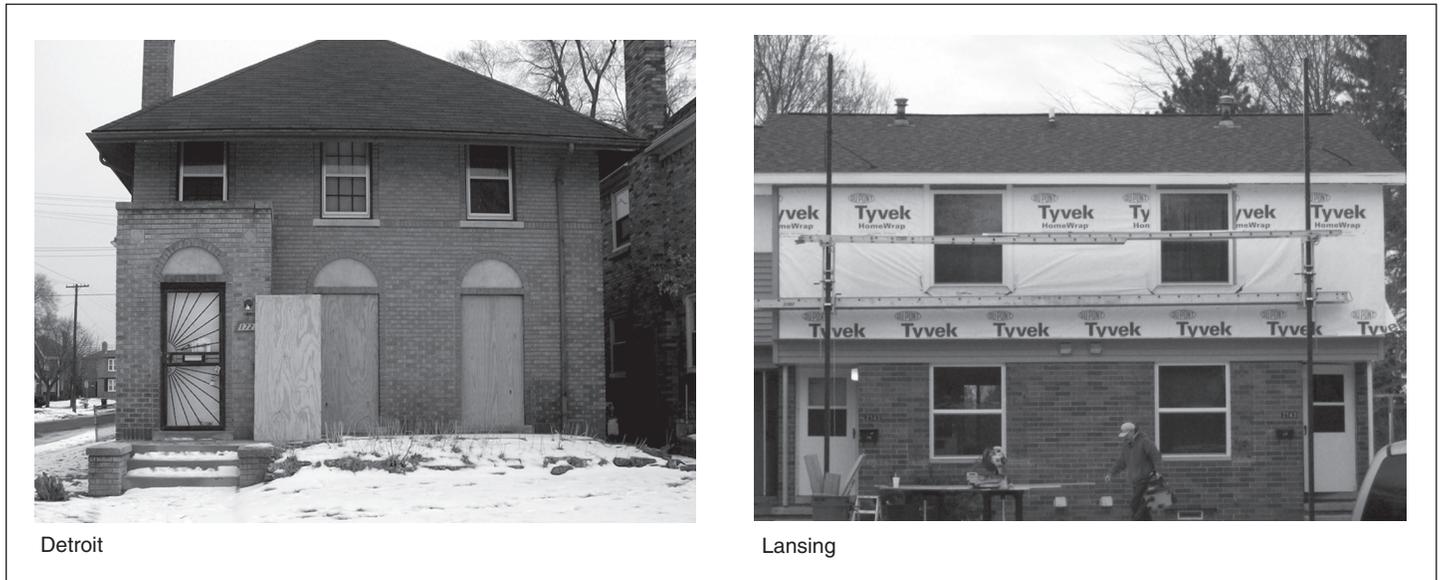
Figure 1: Percentage of Public Housing Capital Fund Formula Grants Allocated by HUD That Have Been Obligated and Drawn Down in Michigan as of May 1, 2010



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

The four PHAs we met with are using Recovery Act-funded PHCF grants for a variety of projects. For example, the Detroit Housing Commission (Detroit) is using the funds for, among other things, plumbing improvements at a 156-unit development as well as rehabilitating 178 single family homes. The Lansing Housing Commission (Lansing) is using its grant to upgrade two different apartment developments and 75 single-family homes. Figure 2 depicts two Recovery Act-funded projects at Detroit and Lansing.

Figure 2: Photos of a Detroit Single-Family Home and Units at a Lansing Housing Complex That Are in the Process of Being Renovated with Recovery Act Funds



Source: GAO.

The two smaller PHAs we spoke with targeted their Recovery Act funding on one development. For example, the Port Huron Housing Commission (Port Huron) reported that it will use its Recovery Act grant for exterior and interior kitchen renovations of 90 units at one development.

HUD’s Detroit Field Office Identified PHAs Needing Assistance to Meet the Obligation Deadline

Field Office officials described communication with PHAs as “a core element” of their strategy to monitor grant implementation and ensure obligation rates would meet Recovery Act deadlines. They reached out to PHAs in a variety of ways, including participating in industry association meetings, supporting local PHA training sessions, and contacting executive directors. In cases where Field Office staff identified PHAs at risk of failing to meet the obligation deadline, they contacted either housing commission board commissioners or locally elected officials to communicate their concerns about a PHA’s lagging obligation rate. The Field Office contacted each of the four PHAs we reviewed to help identify and address any issues that could have prevented them from meeting the obligation deadline. For example, Field Office officials told us that they helped the Ecorse Housing Commission through several processes involved with its plan to demolish a number of public housing units as part of a Recovery Act-funded project.

Recovery Act Requirements Created Some Challenges

PHA officials reported varying degrees of difficulty associated with meeting Recovery Act requirements. For example, PHA officials told us that in administering prior capital fund grants, there was no requirement to identify and report on the source of materials used for capital fund activities, and processes were not in place to gather this information. As a result, officials from all four PHAs we visited told us that they modified their procurement processes to obtain information from contractors to meet the Recovery Act's Buy American provision.⁷ Detroit officials said that the Buy American provision required some of its contractors to find new suppliers that would meet the Buy America provision requirements and that documenting the source of materials used for Recovery Act-funded projects has been a challenge as not all manufactured products provide this information and some products are not available from American sources.

We also analyzed the impact of Recovery Act-funded PHCF grants on the administration of regular PHCF grants. Two of the PHA officials we visited reported that the requirement to obligate 100 percent of their Recovery Act funds by March 17, 2010, had affected their ability to administer other funds. Officials from Lansing and Mount Clemens told us that limited staffing made administering both Recovery Act-funded and regular PHCF grants a challenge, but that, despite their focus on obligating Recovery Act funds first, they still expect to meet the September 2011 obligation deadline for regular fiscal year 2009 funds.

PHAs Are Using Existing Processes to Oversee Recovery Act Funds

Officials from Detroit and Lansing—the PHAs we reviewed that made significant expenditures by the beginning of April—told us that they are using existing monitoring processes, such as conducting periodic inspections, for Recovery Act-funded work. Detroit officials, for example, told us that their staffs are producing daily field reports as part of their regular procedures to monitor construction progress. Similarly, Lansing officials told us that they conduct periodic site visits and review progress reports provided by their architects.

Each PHA that receives HUD funds is responsible for having its activities audited by an independent public accountant in accordance with Government Auditing Standards, and submitting the audit report to HUD within 9 months after its fiscal year-end. We obtained the audit reports for

⁷Recovery Act, div. A, § 1605, 123 Stat. 303.

three of the four PHAs we visited—Detroit, Mount Clemens, and Port Huron.⁸ These audits covered the PHAs’ fiscal year ended June 30, 2009, and two of the three audits included coverage for some Recovery Act spending (Detroit and Port Huron). All three PHAs received an unqualified or “clean” audit opinion on their financial statements and none of the audits reported any significant internal control or compliance matters.

HUD’s Detroit Field Office Instituted Additional Monitoring Protocols for Recovery Act Funds

Field Office officials, who have responsibility for monitoring all 122 PHAs in Michigan receiving Recovery Act-funded PHCF grants, provided us with their monitoring plan. Although this plan provided monitoring procedures for all PHAs, it focuses the Field Office’s efforts on the 15 Michigan PHAs that HUD has designated as “troubled.”⁹ Field Office officials said that they required all troubled PHAs to obtain Field Office approval before obtaining bids and awarding contracts. They also told us that they reviewed troubled PHAs’ obligation actions, such as award packages and final contracts and any subsequent change orders, for compliance with Recovery Act requirements including the Buy American provision.

Field Office staff said they also are reviewing obligations and expenditures equal to 25 percent of each grant award at PHAs that are not “troubled.” Field Office officials told us that they believe this process has helped them identify and resolve compliance issues. For example, Field Office staff told us that they identified the need to update PHA procurement procedures and prevented the allocation of funds by PHAs for ineligible work items (e.g., computers or office equipment) prior to the commitment of funds. However, Field Office officials told us that overseeing Recovery Act grants using the monitoring plan had limited their staff’s availability to conduct timely monitoring, oversight, and technical assistance over other program areas. For example, they postponed some planned monitoring activities for other HUD programs, such as Section 8 rental assistance, until later in fiscal year 2010.

⁸The fourth PHA, Lansing, received an extension from HUD to submit its audit for the fiscal year ending June 30, 2009, and told us on April 23, 2010, that the auditor expects to issue a report soon.

⁹HUD identifies “troubled” PHAs through its Public Housing Assessment System, which evaluates the overall condition of housing agencies and measures performance in major operational areas of the public housing program. In Michigan, these PHAs are the Algonac, Benton Harbor, Detroit, Ecorse, Flint, Grayling, Highland Park, Iron County, Jackson, Luna Pier, Pontiac, Rapid River, River Rouge, Royal Oak Township, and Wakefield Housing Commissions.

Michigan Is Using Recovery Act Funds from the U.S. Department of Education for Education and Public Safety Programs

The U.S. Department of Education (Education) made Recovery Act education funds available to Michigan through three major programs:

- Education allocated \$1.592 billion in State Fiscal Stabilization Fund (SFSF) moneys, of which \$1.302 billion are education stabilization funds and \$290 million are government services funds, as of May 29, 2009. Education stabilization funds must first be used to alleviate shortfalls in state support for education to school districts, also known as local educational agencies (LEA), and public institutions of higher education.¹⁰ Government services funds must be used for public safety and other government services, which may include education.
- Education allocated \$390 million in funding for ESEA Title I, Part A to help educate disadvantaged youth, on April 1, 2009.
- Education allocated \$414 million in funding for IDEA, Parts B and C for programs that ensure preschool and school-age children with disabilities have access to a free and appropriate public education and that provide early intervention and related services for infants and toddlers with disabilities—or at risk of developing a disability—and their families, on April 1, 2009.

LEAs in Michigan used SFSF education stabilization funds to retain jobs—primarily teachers—that would otherwise have been lost. LEAs used ESEA Title I funds to pay for salaries for academic counselors, social workers, tutors, and other specialists. In some cases, they used funds to train teachers or enhance curriculum. For example, Detroit Public Schools used ESEA Title I funds for professional development and instructional materials. Finally, MDE reported using IDEA funds to pay salaries for teachers of students with cognitive impairment, school psychologists, and social workers. As of April 16, 2010, Michigan had drawn down \$923.1 million (71 percent) of its SFSF education stabilization funds; \$86.9 million (22 percent) of its ESEA Title I, Part A funding; and \$82.2 million (20 percent) of its IDEA Part B funding.

In our September report we noted that to provide accurate and timely Recovery Act reporting, the Michigan Department of Education (MDE), in

¹⁰States must maintain state support for K-12 education and institutions of higher education at least at fiscal year 2006 levels in fiscal years 2009, 2010, and 2011. States must first use education stabilization funds to restore state funding to the greater of fiscal year 2008 or 2009 levels for state support to K-12 school districts and institutions of higher education in fiscal years 2009 through 2011.

coordination with the Detroit Public Schools (DPS), will need to consider implementing policies and procedures in the near term to provide reasonable assurance that education-related Recovery Act funds, including those provided to DPS, are reported accurately and timely; that jobs retained and created are accurately and timely reported; and that funds are used only for allowable purposes. To accomplish this, MDE has begun implementing a monitoring plan and DPS has taken actions to improve its internal controls. We discussed our prior findings with MDE and DPS officials in April 2010 and they told us that they would provide us with written responses to these issues at a later date.

The Recovery Act created SFSF in part to help state and local governments stabilize their budgets by minimizing budgetary cuts in education and other essential government services. On April 1, 2009, Education allocated \$290 million in SFSF government services funds to Michigan. As of March 31, 2010, Michigan had expended almost all of its government services funds (over \$288 million). Specifically, these funds were used during Michigan's fiscal year ended September 30, 2009, for the following:

- **Payroll and related expenses for the Michigan State Police: \$98 million.** Funds were used for staff payroll and the state's share of employee benefits for uniformed troopers, investigative services, and laboratory operations.
- **Payroll and related expenses for the Department of Corrections: \$190 million.** Funds were used for staff payroll and the state's share of employee benefits for operations at one correctional facility; mental health care staff; and food services staff.
- **Expenses of the Economic Recovery Office (ERO), which administers the Recovery Act for Michigan: \$324,000.** Michigan used these funds for staff salaries, the state's share of employee benefits for 3.5 full-time equivalents, and the general operational and administrative expenses of the ERO. In addition, it used Recovery Act funds to develop a centralized database and portal to support recipient reporting.

State budget officials told us that these payroll, benefit, and other expenses were incurred during the period starting on February 17, 2009, the Recovery Act's enactment date, and ending on September 30, 2009, the last day of the state's fiscal year. Officials said that they identified specific staff salaries and the related estimated employer share of benefit expenses

to support the amounts charged to Recovery Act funds. Officials told us that as of March 31, 2010, Michigan had about \$1.6 million of its government services funds remaining, most of which are to be used to pay for ERO operations through September 30, 2011.

Michigan Has Made Progress on Monitoring and Internal Controls for Education Funds

As required, MDE submitted its monitoring plan for education stabilization funds to Education in March 2010. MDE's plan states that the department will implement an integrated, comprehensive monitoring program for all Recovery Act grants, and that for the first year the effort will focus on SFSF education stabilization funds. According to MDE officials, this monitoring began in March 2010, and they determined the schedule for monitoring based on a risk-based analysis of numerous factors, including whether the district has a deficit, prior audit findings, and the amount of SFSF funds received.

In order to meet the requirements to effectively monitor Recovery Act grant programs, MDE plans to follow a phased approach, while building capacity. Officials told us that MDE currently conducts programmatic monitoring on all Education grants, and they plan to add fiscal monitoring over time. During the 2009-2010 school year, MDE plans to leverage its resources by using existing staff. Using a risk-based approach, MDE officials told us they identified recipients to receive on-site visits and will conduct monitoring of SFSF funds for subrecipients with a Recovery Act award during these visits. MDE assigned a Recovery Act monitoring coordinator to coordinate MDE monitoring efforts of all Recovery Act grants, but with a special focus on on-site and desk reviews for SFSF grants. Officials told us that program monitors have been trained on SFSF-specific monitoring protocols and tools. MDE also plans to collect data from all subrecipients as part of its Recovery Act monitoring.

State officials said that although they have not developed a specific oversight plan to provide assurance of accountability of Recovery Act SFSF government services funds, Michigan intends to rely primarily upon existing safeguards, which is consistent with the state's practices for other Recovery Act funds. Michigan's Department of Management and Budget, the Michigan State Police, and the Department of Corrections each have responsibility for overseeing and monitoring their operations' use of SFSF government services funds. Education required states to submit monitoring plans for both the education stabilization and government services funds. Michigan provided monitoring plans from the Department of Corrections and the Michigan State Police by the March 12, 2010, deadline. In addition, in April 2010 officials in the Office of the Auditor

General told us that they are including these funds in their Single-Audit Act work.¹¹

MDE Performs Targeted Monitoring and Oversight of the Detroit Public Schools District

MDE performs targeted monitoring and oversight of DPS based on the significant education funds provided to the district—including increases in funds through the Recovery Act—and the risks posed by long-standing financial management challenges. In addition, as a result of financial management weaknesses and DPS's budget deficits,¹² Michigan's Governor appointed an Emergency Financial Manager for the district in March 2009 and extended his initial 1-year term through March 1, 2011. The Emergency Financial Manager also appointed two officials to help improve DPS's financial oversight, an Inspector General and an Auditor General.

MDE allocated \$62.3 million in SFSF funding and \$150 million in ESEA Title I Recovery Act funds to DPS through fiscal year 2010, along with \$25.7 million in Recovery Act funds to DPS for IDEA Part B grants, for a total of \$238 million. As of April 20, 2010, DPS had drawn down \$98.2 million of these funds (\$60.4 million from SFSF grants, \$32.4 million from ESEA Title I grants, and \$5.4 million from IDEA Part B grants). MDE officials told us that as part of the department's enhanced monitoring of DPS, including its Recovery Act spending, they have created a team that meets on a regular basis to discuss and review DPS's applications, draw-down requests, policies and procedures, and strategic planning documents. MDE also has a core team that conducts biweekly phone calls with DPS to discuss internal control issues.

In addition, MDE officials told us that they engaged an independent public accountant (IPA) to test DPS payment transactions. They hired the IPA to assist in evaluating whether DPS maintained documentation and followed specified procedures regarding federally funded payroll and fringe benefit costs for employees, as well as nonpayroll federal expenditures for fiscal year 2010. According to MDE officials, DPS is working with MDE to establish new procedures. DPS's rate of compliance with these procedures is periodically tested by the IPA, which in turn is responsible for reporting the test results to MDE. Although MDE officials told us that the new

¹¹For more discussion of single audits, see the full report at <http://www.gao.gov/recovery>.

¹²DPS reported a deficit of \$139 million for its fiscal year ended June 30, 2008; and \$219 million for fiscal year ended June 30, 2009.

procedures have led to improved controls over payroll and nonpayroll expenditures, they did not maintain a record of the change in error rates reported by the IPA over time or other metrics to monitor progress. Without preparing and continually updating such a record, MDE may not be assured that actions taken are appropriate or that the desired effect occurs, or be able to assess whether the impact is being sustained.

The Detroit Public Schools District Has Taken Steps to Improve Its Internal Controls

DPS has made progress in improving its financial management in a number of areas. For example, in contrast to prior years, the IPA submitted the district's 2009 audit in advance of the November 15, 2009, deadline. The 2009 audit also contained fewer findings than the prior year's audit. DPS officials also told us that they hired a consulting firm to assist them in organizing and addressing audit findings and to help develop long-term solutions.

DPS officials told us that DPS's Inspector General has instituted a monitoring system that seeks to continuously evaluate and reduce risk of fraud. In addition to this monitoring system, the DPS Auditor General, an internal audit office, has recently begun a formal internal control risk management analysis involving interviews of various DPS administrators, contractors, vendors, and other stakeholders. In April 2010, DPS Auditor General officials told us that they conducted preliminary assessments of all departments and are working to understand and document what controls are currently in place for each department. Officials also told us that, in an effort to encourage program managers to take ownership of internal control improvements, they plan to ask each program manager to identify initiatives he or she wants to complete within a year.

DPS officials said that they also developed a procedures manual for financial reporting and they plan to provide financial training, including training in accounting, bookkeeping, and preparing financial statements for school administrative staff. The manual is not specific to Recovery Act funding; rather, it is designed to address financial reporting on a district-wide basis. Specific issues addressed in the manual are allowable use of funds, contract suspension and debarment, equipment management, personnel management, and contracting policy. However, as of April 2010, although much has been done in each of the five targeted areas to document policies and procedures, officials acknowledged that none of these efforts have been fully completed or placed in operation.

Work Remains to Address Systemic Weaknesses at DPS

To ensure accountability over Recovery Act funds, it is important for MDE, DPS, and other stakeholders to continue their efforts to provide sustained attention to these long-standing financial management challenges. In addition, it is important to ensure that the underlying causes of control weaknesses are addressed and that improvements—once put into place—are monitored.

For example, MDE officials told us they were concerned that the district inadequately documented conflicts of interest. To address, they said that DPS has adopted new policies and procedures, but still needs to train about 15,000 employees. According to DPS officials, DPS has also implemented new controls over computers. These include equipping all new computers with an electronic tracking system and working with schools to complete an inventory of all equipment. Although there are plans to do so, DPS officials informed us in April 2010 that the computer physical inventory has not yet been reconciled with DPS property records. In addition, DPS has not established essential management processes for controlling physical assets—including, for example, periodic inventories and reconciliations to books and records.

MDE officials told us that they are focusing on improvements at DPS in the following areas: conflict of interest, allowable use of federal funds, cash management, contracting, procurement, internal monitoring, property and equipment, and personnel. DPS is charged with documenting its policies and procedures in each of these areas. MDE officials are benchmarking DPS's performance with that of other large city school districts, evaluations of external consultants, and MDE's own policies and procedures.

In addition, as discussed earlier, the DPS Inspector General is conducting work that results in recommendations to management. However, there is no formal process for tracking the recommendations from the Inspector General or actions to address the recommendations and there is no requirement for DPS departments to provide responses to the findings.

Michigan Has Made Progress in Using Recovery Act Funds to Provide Services and Training to Additional Dislocated Workers, Mainly through Existing Training Programs

Michigan has made progress in using Recovery Act funds for the WIA Dislocated Worker Program. The state received \$78.4 million in Recovery Act funds for the program and as of March 31, 2010, total state drawdowns account for at least 34 percent (\$27.3 million) of available funds.¹³ Drawdowns represent cash transactions: funds drawn down by states and localities to pay their bills, such as payments for training provided. Localities must spend Recovery Act funds by June 30, 2011 to provide job training and other employment assistance.

Funds Have Been Used to Increase the Number of Workers Receiving Services and Training

Officials from the Michigan Department of Energy, Labor, and Economic Growth said that economic conditions contributed to an increased number of customers seeking services at one-stop centers across the state. At the same time, in 2009 Michigan received nearly 43 percent less in regular WIA Dislocated Worker formula funds than it did the previous program year.¹⁴ Despite this reduction, state officials said that they were able to serve and train more WIA customers using both Recovery Act and regular formula funds. For example, according to state officials, for the month of December, when they typically see fewer customers, one-stop centers statewide saw an increase in customers from around 7,000 in 2007, to around 14,000 in 2009.¹⁵ Moreover, dislocated workers receiving intensive services and training nearly doubled compared to the same time period in

¹³According to Labor officials, the total amount of Michigan's drawdowns is a minimal estimate because of programming issues with Labor's new computer system. Labor is taking steps to correct the problem and officials told us on April 21, 2010 that they expect the issue to be resolved within the next 30 days. Labor officials said that actual drawdown amounts will be publicly available at that time.

¹⁴GAO has previously found that as states and localities have implemented WIA, they have been hampered by funding issues, including statutory funding formulas that are flawed. As a result, states' funding levels may not always be consistent with the actual demand for services. For more information, see [GAO-03-636](#) and GAO, *Workforce Investment Act Potential Effects of Alternative Formulas on State Allocations*, [GAO-03-1043](#), (Washington, D.C.: August 28, 2003).

¹⁵One-Stop customers in Michigan may be served through a variety of programs, including WIA Adult and Dislocated Worker Programs, and the Wagner-Peyser Employment Service Program, among others.

the previous year, according to our survey.¹⁶ The state also reported that nearly 16,000 dislocated workers are in training using Recovery Act or regular WIA dislocated worker funds, as of January 31, 2010.

Michigan Used Recovery Act Funds to Provide Training in Existing Programs and to Address Local Plans

State officials said that Recovery Act funds are primarily being used to place dislocated workers in existing training initiatives, such as the state's No Worker Left Behind program (NWLB), using individual training accounts (ITAs). The goal of this program is to accelerate the transition of thousands of workers into good paying jobs by providing up to two years worth of tuition at any community college, university, or other approved training provider. Both Grand Rapids and Detroit reported that they have used or intend to use Recovery Act funds primarily to establish ITAs for dislocated workers.¹⁷ Labor encouraged states to use Recovery Act funds for a variety of training methods such as on-the-job training (OJT) and contracts with institutions of higher education, community based organizations and other training providers.¹⁸ Grand Rapids officials said that they offered some OJT, but have not placed any dislocated workers in training through contracts with institutions of higher education. According to Grand Rapids officials, local community colleges are reluctant to develop group training programs because Recovery Act funds are temporary and would not be available to support these programs when funds are exhausted. Detroit officials said they are considering ideas to increase industry interest in OJT during the economic downturn and said they are using Recovery Act funds to place dislocated workers in training contracted through a local community college for coursework aligned with the Weatherization Assistance Program.¹⁹ In summary, Grand Rapids and Detroit have a number of planned uses for Recovery Act funds in their

¹⁶GAO conducted a nationwide Web-based survey of state workforce agencies regarding their use of Recovery Act funds for dislocated workers. However, GAO did not review the data used to provide these estimates.

¹⁷In Grand Rapids we visited the Area Community Services Employment and Training Council, the Workforce Development Board representing Kent and Allegan Counties.

¹⁸To facilitate increased training for high-demand occupations, the Recovery Act expanded the methods for providing training with Recovery Act funds, allowing states to directly enter into contracts with institutions of higher education or other training providers.

¹⁹The Recovery Act appropriated \$5 billion over a 3-year period for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) administers through each of the states, the District of Columbia, and seven territories and Indian tribes. The program enables low-income families to reduce their utility bills by making long-term energy efficiency improvements to their homes.

local areas, such as providing training for the health care industry or for green jobs, among others, as shown in table 1.

Table 1: Selected Uses of WIA Dislocated Workers Program Recovery Act Funds in Detroit and Grand Rapids, MI

Locality	Allocation	Planned uses
Detroit	\$7,224,075	<ul style="list-style-type: none"> • Serve an increased number of customers at one-stop centers, in part by increasing career planning staff • Provide training coordinated through the NWLB program • Provide training in the health care industry due to strong local demand • Provide training contracted with higher education institutions for the Weatherization Assistance Program
Grand Rapids	\$2,740,261	<ul style="list-style-type: none"> • Serve an increased number of customers in one-stop centers • Offer more basic skills programs to prepare workers for entry-level college courses • Provide training in the health care industry due to strong local demand • Provide increasing training opportunities for green jobs

Source: GAO analysis of interviews and information provided by the Detroit Workforce Development Department and Grand Rapids' Area Community Services Employment and Training Council. This table is not intended to present all planned uses for Recovery Act funds.

State and Local Officials Have Taken Steps to Address Detroit's WIA Summer Youth Employment Program's Internal Control Challenges

Michigan was allotted approximately \$74 million in WIA Youth Program, Recovery Act funds. The WIA Youth Program is designed to provide low-income, in-school and out-of-school youth with services that lead to educational achievement and successful employment, and the Department of Labor issued guidance encouraging states to use Recovery Act funds for summer employment. DELEG—the state agency responsible for administering the program—allocated \$62.9 million to its 25 local Michigan Works! Agencies and reserved \$11.1 million (15 percent) for statewide activities. DELEG officials told us that as of March 31, 2010, the Michigan Works! Agencies had expended \$55.9 million and that the program had met the state's enrollment goal and served over 21,000 youth in Michigan's Summer Youth Employment Program.

Our prior review of Detroit's program identified a number of significant internal control challenges that needed attention.²⁰ The Detroit program served approximately 7,000 youth. These challenges included control weaknesses with the payroll preparation and distribution process and program eligibility determinations and documentation. In September 2009

²⁰GAO, *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.: September 2009).

we reported that DELEG needed to work with the Detroit Workforce Development Department (DWDD)—the Michigan Works! Agency responsible for Detroit’s program—and its WIA contractors to address internal control issues with youth not being paid on time and checks being prepared with incorrect amounts, payee names, and addresses, as well as to resolve past payroll preparation issues and payroll distribution challenges. We also reported that DELEG should work with Detroit program officials to identify program risks and implement appropriate internal controls to address issues involving eligibility determinations and the lack of documentation supporting eligibility decisions.

State officials concurred with our assessment of Detroit’s payroll weaknesses and recommended that DWDD modify its entire weekly payroll process and restructure the distribution process to ensure sites are adequately staffed to serve participants in an organized and timely manner. Through a series of biweekly meetings and conference calls, DELEG officials provided DWDD officials with technical assistance, including staff training and best practices from another Michigan Works! Agency. Based in part on this assistance, DWDD worked with its program contractor to address our payroll findings by (1) streamlining the check distribution process, (2) moving to a larger distribution center, and (3) developing a procedures manual. DELEG and contractor officials told us that during the last two payroll periods for the 2009 program, the streamlined payroll procedures and change of venue resulted in shorter waiting times for youth picking up their paychecks and faster resolution of complaints and they expect further improvements in payroll procedures going forward.

Actions Are Under Way to Improve Safeguards for Documenting Eligibility Determinations

Two DWDD-led reviews determined that some files contained improper or incomplete eligibility certification documentation and that 119 ineligible youth received a total of \$40,253 from WIA Recovery Act funds that should not have been paid. For example, DWDD found that medical files—which DELEG officials told us was unacceptable for verification purposes—were used to verify age and eligibility for some participants. On April 27, 2010, DWDD officials provided us with evidence that the Detroit WIA Summer

Youth program had been reimbursed for \$40,253 for improper payments made to youth in Detroit using Recovery Act funds.²¹

DWDD officials told us that because complete documentation and evidence of eligibility verifications were missing from some files, they had conducted an assessment of their eligibility determination and documentation processes. DWDD officials also said they trained 24 contractor staff on required and acceptable alternative documentation.

Our earlier review of participant files had also revealed inadequate or nonexistent support of the “youth in need of special assistance” basis for WIA eligibility decisions. In March 2010, the DWDD Director told us that DWDD officials were collaborating with an advisory body to develop a working definition of the “youth in need of special assistance” category that was used during the 2009 program.²² They expect that once the definition is approved by the DWDD board, it will provide clear instructions on which youth meet this definition.

²¹Program officials told us that their work had identified \$40,253 of improper payments made with Recovery Act funds. Our work did not extend to testing the methodology used or the support for the amount management identified. The \$40,253 represents unaudited information.

²²DWDD was consulting with the Education & Youth Advisory Council, an advisory body to the Detroit Workforce Development Board charged with developing policy to operate youth services.

Recovery Act Funds Continue to Provide Assistance to the State of Michigan and Its Local Governments as They Address Ongoing Budget Challenges

The State of Michigan continues to face economic difficulties. In March 2010, the state's unemployment rate was 14.9 percent,²³ the highest in the nation and an increase from 13.3 percent in March 2009. As noted in our previous reports, Michigan took a number of cost-cutting measures midway through fiscal year 2009 to help ensure that the state's budget ended the fiscal year in balance. These measures included mandating furlough days for state employees, closing three correctional facilities, and implementing a 4 percent across-the-board cut for most state agencies. The ongoing difficulties are also reflected in projected revenues for the state's two largest budget funds—the general fund and the School Aid Fund—which are estimated to total \$17.4 billion²⁴ for the fiscal year ending September 30, 2011. This would be a 4.6 percent decline from fiscal year 2009. The Governor's proposed fiscal year 2011 budget states that expected revenues, along with current spending policies, would create a \$1.497 billion shortfall in fiscal year 2011.

Recovery Act Funds Used to Maintain Balanced Budget

In fiscal year 2010, Michigan officials expect to use almost \$1.1 billion in funds made available as a result of the increased FMAP under the Recovery Act to support the state's general fund. In addition, the School Aid Fund is bolstered by \$450 million in Recovery Act SFSF education stabilization funds.²⁵ State officials said that without these funds, the state would likely have had to make cuts to school spending and its Medicaid program, and even more drastic cuts in local government aid than it did for fiscal year 2010.²⁶ State officials said that through March 2010, fiscal year 2010's actual revenues have matched projections and that—with the assistance of Recovery Act funds—the state has not had to implement employee furloughs or supplemental budget cuts as it did in fiscal year 2009. State officials said that the State Budget Office will continue to

²³GAO analysis of U.S. Department of Labor, Bureau of Labor Statistics (BLS) data. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

²⁴According to state budget officials, general fund revenues in fiscal year 2011 are expected to be \$6.96 billion, and revenues for the School Aid Fund are expected to be \$10.48 billion.

²⁵According to state budget officials, general fund spending in fiscal year 2010 is expected to be \$8.1 billion; School Aid Fund spending in fiscal year 2010 is expected to be \$12.8 billion.

²⁶According to officials, Michigan cut revenue sharing with local governments from \$1.03 billion in fiscal year 2009 to an estimated \$917 million in fiscal year 2010.

monitor the state’s fiscal situation to determine if additional action is necessary.

Michigan Is Preparing for the Cliff Effect

As mentioned above, Michigan is facing a \$1.497 billion shortfall in fiscal year 2011. According to the Governor’s proposed fiscal year 2011 budget, over \$1 billion of this shortfall is due to a funding gap that is expected to exist when Recovery Act funds run out. The Governor has proposed a series of cost reductions and a restructuring of the state’s sales and use taxes²⁷ to help fill the anticipated gap. The proposed budget also includes \$514 million in increased FMAP payments to the state in the first two quarters of calendar year 2011 based upon the state’s expectation that the Congress will extend the temporary increase in the FMAP that was provided under the Recovery Act. State officials told us that if Congress does not extend this increase, the state’s fiscal year 2011 budget would not balance and officials would need to find alternative sources to address the additional budget shortfall of \$514 million.

We also visited the cities of Flint and Lansing (see table 2) to review their use of Recovery Act funds.

Table 2: Background on Selected Local Governments

Locality	Population	Locality type	Unemployment rate	Fiscal year 2010 operating budget
Flint	112,900	City	27.0%	\$279.4 million
Lansing	113,968	City	16.3%	\$219.1 million

Source: GAO analysis of U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics. Operating budget information provided by local budget officials.

Notes: City population data are from the latest available estimate, July 1, 2008. Unemployment rates are preliminary estimates for March 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

City of Flint

Flint was awarded \$12.2 million in Recovery Act funds through April 30, 2010, an increase of \$7.7 million from the \$4.5 million we reported in

²⁷ According to a March 2010 Michigan Senate Fiscal Agency memo on the Governor’s proposed tax changes, this proposed restructuring would lower the sales and use tax rate from 6 percent to 5.5 percent while expanding the sales and use tax to consumer services such as repair and maintenance services; cable and satellite television; and live entertainment. The Governor’s proposed budget excludes certain items from this tax, such as health care and social assistance, education, and new construction.

December 2009.²⁸ City officials told us that this increase was due to two Recovery Act grants:

- an Energy Efficiency and Conservation Block Grant (EECBG) of about \$1 million, which they plan to use for increasing energy efficiency as they rehabilitate houses and construct group housing, and
- a Staffing for Adequate Fire and Emergency Response Grant of \$6.7 million awarded by the U.S. Department of Homeland Security, which they expect to use to rehire 39 firefighters that had been previously laid off.

Flint officials noted that similar to what we reported in December 2009, Recovery Act funds continue to have little effect on the city's fiscal stability because of continuing economic pressures. Officials told us that while Recovery Act funding has provided the city with temporary relief, the city is still losing more jobs than are created or retained with the use of Recovery Act funds. Flint officials told us that the city has recently experienced declines in its primary sources of revenue—income taxes and state revenue sharing. To help balance its budget, the city is decreasing the number of municipal employees and reducing government services, such as garbage collection. Flint officials told us that a Recovery Act funded COPS Hiring Recovery Program (CHRP) grant helped the police department prevent further reductions in staffing by hiring eight police officers, but that city has not determined how it will pay these officers' salaries when the grant runs out.

Flint's most recent Single Audit report—dated December 18, 2009, for the fiscal year ended June 30, 2009—included a report on internal controls. One control weakness reported was the absence of documentation confirming that contractors being paid through the city's Community Development Block Grant (CDBG) program had not been debarred. The city has received Recovery Act funds through the CDBG program, but after the time period covered by the Single Audit report. To correct this weakness, city officials told us that before expending any Recovery Act funds they had begun to include confirmation documentation in their contract records.

²⁸See [GAO-10-232SP](#) for our discussion of Flint's previous Recovery Act grant awards.

City of Lansing

As of April 30, 2010, Lansing was awarded approximately \$26.5 million in Recovery Act funds through a number of different programs—including an \$867,768 CHRP award, which will be used to add or retain four police officers for a three year period, and approximately \$5 million through a Neighborhood Stabilization Program award which will be used to acquire, manage, rehabilitate, or demolish 323 foreclosed homes. Lansing officials also described instances in which they worked with other entities to maximize the effectiveness of Recovery Act grants. For example, they told us that the city is currently collaborating with the state on a solar demonstration project using EECBG funds received separately by the city and state.

City officials said that Lansing’s economic situation would have been much worse without Recovery Act funds. Officials told us that they are allocating most of the Recovery Act funds that Lansing receives to nonrecurring projects that will not need continued funding once the Recovery Act funds run out. For example, city officials told us that Lansing is using its CDBG grant to fund improvements to walkways at the Boys and Girls Club and install light-emitting diode traffic lights.

Although city officials primarily relied upon preexisting internal controls and oversight practices, they told us that they modified their controls as a result of control weaknesses reported in the most recent Single Audit report. The audit—dated December 17, 2009, for the fiscal year ended June 30, 2009—included internal control findings. In response to the audit, officials said that among other things, Lansing is now performing closer monitoring of subrecipients by instructing all monitoring staff to ensure that single audit findings of subrecipients are followed up on.

Recipients Varied in Compliance with OMB’s Guidance on Reporting Jobs

The Recovery Act requires each recipient of Recovery Act funds to report information quarterly to the federal government on each award, including (1) the total amount of Recovery Act funds received, (2) the amount of funds expended or obligated to projects or activities, and (3) the estimated number of jobs created and retained by the projects and activities.²⁹ For this report, we met with state and local officials to discuss processes and procedures selected recipients have in place to implement the Office of Management and Budget’s (OMB) guidance on full-time equivalent (FTE)

²⁹Recovery Act, div. A, title XV, § 1512(c).

calculations.³⁰ We also reviewed steps recipients took to assess the quality of the data they used in their most recent recipient reports, which covered the period January 1 through March 31, 2010. We reviewed supporting documents and held discussions with state officials from the Economic Recovery Office (ERO), Michigan Department of Education (MDE), and Michigan Department of Energy Labor and Economic Growth (DELEG), as well as officials from Detroit Public Schools (DPS), Michigan State University, Detroit Workforce Development Department (DWDD), and the Detroit Housing Commission. In Michigan, state agencies—such as MDE and DELEG—report to the ERO through a centralized reporting process, while entities that receive Recovery Act funds directly from the federal government—including the Detroit Housing Commission—report on an individual basis to the federal government and do not participate in the state’s centralized process.

Improvement May Be Needed to Meet Recovery Act Reporting Requirements

We found that preparers of recipient reports that we reviewed generally followed the OMB guidance; however, their interpretations of guidance and their processes varied and did not consistently ensure that complete and accurate information was reported to the federal government. OMB’s guidance states that recipients are to include jobs created and retained from subrecipients and vendors in their quarterly reports to the maximum extent practicable. Consistent with OMB’s guidance, Detroit Housing Commission officials told us that their recipient report FTE calculation did include hours worked by contractors and subcontractors.³¹ However, we found that DELEG and DWDD (which is one of 25 Michigan Works! Agencies that reports to DELEG) did not report consistent with OMB guidance. DWDD officials told us that the FTE information they provided to DELEG included the number of youth employed in the summer youth employment program, but did not include hours worked by their

³⁰OMB Memorandum, M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates* (Dec. 18, 2009), among other things, standardized the period of measurement of jobs created or retained as one quarter.

³¹OMB Memorandum, M-10-08, December 18, 2009, states that, “To the maximum extent practicable, information should be collected from all sub-recipients and vendors in order to generate the most comprehensive and complete job impact numbers available.”

contractor or subcontractor personnel.³² DELEG officials told us that they did not require their Michigan Works! Agencies to include hours worked by their contractors or subcontractors. Similarly, DPS officials told us that their initial report to MDE did not include hours worked by their Recovery Act-funded contractors because they were not aware of the requirement. When we brought this to the attention of DPS officials in April 2010, they told us they would discuss the matter with MDE. MDE officials later told us DPS submitted an amended report to include contractor and subcontractor jobs.

Without processes in place to obtain information from the contractors for hours worked, DELEG's reporting of jobs created or retained may be misstated. DELEG should pursue with appropriate ERO and federal officials what information they may be responsible for obtaining from contractors, and provide appropriate direction to their subrecipients—including the 25 Michigan Works! Agencies—as appropriate. In May 2010, ERO officials told us that they will work with DELEG to address this issue.

We also found one instance where jobs created by Recovery Act funds were not initially reported because, according to DPS officials, the school system concluded that it had not been reimbursed with Recovery Act funds by March 31, 2010.³³ DPS officials told us that they reported jobs for their ESEA and IDEA grants, but not for their SFSF grant because they had not received reimbursement during the quarter ended March 31, 2010. DPS subsequently received reimbursement from the state. When we brought this to the attention of DPS officials in April 2010, they discussed the matter with MDE and subsequently submitted an amended report to include 430 jobs.

Similarly, another recipient we spoke with told us that they needed further guidance from state or federal officials regarding salaries that had been paid from operating funds but will be retroactively funded by SFSF education stabilization funds. Michigan State University officials told us

³²Of the \$11.4 million of Recovery Act funding allocated to Detroit Michigan Works! Agency, DWDD retained \$8.3 million for youth payroll and internal administration and used \$3.1 million to contract with a vendor that administered the summer youth employment program. In total, DELEG allocated \$62.9 million to the 25 Michigan Works! Agencies for the WIA summer youth program.

³³On October 21, 2009, MDE initially made approximately \$12.1 million in SFSF funds available to DPS. On March 12, 2010, MDE made an additional \$14.7 million in SFSF funds available to DPS.

that the Michigan Department of Management and Budget awarded them \$35.7 million in SFSF education stabilization funds in February 2010. Officials also said that through March 31, 2010, they had spent approximately \$2.5 million of their award on scholarships and had reported zero jobs in the March 31, 2010, recipient report. Approximately \$30.1 million of these funds will be used to fund university salaries and related benefits retroactive to October 1, 2009.³⁴ The university plans to offset budget cuts by transferring employee salaries and benefits paid from operating funds to SFSF education stabilization funds, and is currently working to identify these expenses. However, officials told us that they will seek guidance from Michigan's Department of Management and Budget about how to report the jobs created or retained by Recovery Act funds and paid for in previous quarters. Because OMB's December 18, 2009, guidance states that a funded job is one in which the wages or salaries are either paid for or will be reimbursed with Recovery Act funding, these jobs should be reported as jobs created or retained with Recovery Act funds. Michigan officials with the ERO, the Michigan Department of Management and Budget and MDE should consider what actions might be taken to ensure that jobs that are paid for by Recovery Act SFSF education stabilization funds are being reported consistently and timely. In May 2010, ERO officials told us that they will work with stakeholders to address this issue.

Data Quality Review Processes Varied among Recipients

We found that recipients conducted various levels of data quality reviews. For example, MDE officials told us that their subrecipients—including DPS—provide them with FTE and vendor payment information on each Recovery Act grant they received using an electronic system with a built-in error-checking mechanism. Officials provided us with a copy of their written review procedures, which include steps for program offices to review subrecipient reports for missing information, verify that the number of FTEs is consistent with the award amount and is reported for the quarter only, and contact subrecipients in instances where the program offices have concerns. MDE sent its completed recipient report to the ERO, where it was again reviewed before it was submitted to the federal government. On the other hand, the Detroit Housing Commission, which reports directly to the federal government, told us that it collected

³⁴Officials told us that they plan to use approximately \$5.2 million of the award to reinstate Michigan Promise scholarships, about \$400,000 on economic hardship scholarships, and the balance on making up for budget cuts that had affected the Michigan Agricultural Experiment Station and the Michigan State University Extension Service.

and aggregated FTE information from each of its contractors and submitted the completed recipient report.³⁵ Although the housing commission does not require contractors to provide documentation supporting their FTE information, officials told us that they review the information that contractors do provide for reasonableness.

State and Local Officials Have a Variety of Recovery Act Program Audits Under Way, but Believe Additional Federal Guidance Is Needed

Michigan's Office of the Auditor General (OAG) and the Office of Internal Audit Services (OIAS) serve key roles in safeguarding Recovery Act-funded programs in Michigan. OAG is responsible for conducting financial, performance, and Single Audits³⁶—under the Single Audit Act—of Michigan's state agencies. In April 2010, OAG officials told us that they are including Recovery Act funds as part of their audit work and that the Single Audit reports covering the 2-year period ended September 30, 2009, are planned for issuance by June 30, 2010. They told us that the scope of work covered in each state agency's single audit differs because it is based on the results of risk assessments, but typically includes, as applicable, compliance work in areas such as Davis-Bacon Act provisions, state cost matching or maintenance-of-effort requirements, allowable costs, recipient reporting, and subrecipient monitoring.³⁷

OAG officials told us that one challenge in their Single Audit process for state agencies is the absence of Office of Management and Budget's (OMB) guidance on audit requirements for the mandated quarterly recipient reports of Recovery Act spending and jobs created and retained. OAG officials told us that they were uncertain about the usefulness of

³⁵Detroit Housing Commission officials told us that contractors also provide FTE information from their subcontractors.

³⁶Single 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.

³⁷The Davis-Bacon Act is codified at 40 U.S.C. §§ 3141–3144, 3146–3148. The Recovery Act's Davis-Bacon provisions are located at section 1606 of the act. Recovery Act, div. A, § 1606, 123 Stat. 303.

auditing the September 30, 2009, recipient reports, since OMB's December guidance changed the jobs calculation methodology from calculating jobs on a cumulative basis to a quarterly basis. As a consequence, OAG officials stated that for their single-audit work on recipient reporting they will obtain an understanding of the internal control structure established and make an assessment of the process based on that understanding, but likely will not audit the effectiveness of the controls. Because Michigan is one of the few states with a September 30 fiscal year-end—the same date as the first required recipient reports—this challenge is unusual compared to states with a June 30 fiscal year-end because at the close of these audits state officials had not yet completed any recipient reports.³⁸

Another challenge OAG officials discussed with us is the lack of federal guidance related to the “Buy American” provision of the Recovery Act.³⁹ OAG officials said that it would be helpful for OMB to clarify the criteria that the audit community should use for assessing compliance with the Buy American provision. Similar to the recipient report issue discussed above, OAG officials are concerned that additional guidance from federal agencies is needed to help ensure that the Single Audits provide sufficient information for the report users and that OAG investments of scarce audit resources are targeted on areas that are at higher risk.⁴⁰

In April 2009, Michigan established the ERO to, among other things, provide oversight and enhance transparency over the availability and uses of funds, and maintain a Web Site on Michigan's Recovery and Reinvestment Plan (www.michigan.gov/recovery). The ERO is the central state office that collects, reviews, and transmits state agencies' quarterly recipient reports to the federal government through federalreporting.gov. According to ERO officials, state agencies are responsible for the data in their recipient reports and ERO staff review the reports for inconsistencies and reasonableness.

OIAS is the central internal audit group for Michigan with responsibility for internal audit and related services—such as reviews and technical assistance—to assist executive branch departments and state agencies in

³⁸The first recipient reports covered the period through September 30, 2009, and were due on October 10, 2009.

³⁹Section 1605 of the Recovery Act imposes a Buy American requirement on Recovery Act funding, subject to certain exceptions. Recovery Act, div. A, § 1605, 123 Stat. 303.

⁴⁰For more discussion of Single Audits, see the full report at <http://www.gao.gov/recovery>.

assessing risk and implementing, maintaining, and monitoring internal controls. In January 2010, OIAS officials told us that when Congress enacted the Recovery Act in February 2009, they began designing an approach for monitoring Recovery Act funds. Officials told us that the office assigned two of its 45 internal audit staff to work full-time on programs funded by the Recovery Act, and plans to increase staffing as necessary. In addition, OIAS officials told us that they selected eight programs for detailed review based on an assessment of the control risks posed by the programs, and that they planned to conduct further reviews of the selected programs as spending occurred.⁴¹ OIAS officials told us that they would include steps as appropriate into their audit work plans for issues that GAO's Recovery Act work identifies, such as the internal control challenges we reported in September 2009 for MDE, DPS, DELEG and the Detroit Workforce Investment Act (WIA) program.⁴²

Along with OIAS and OAG efforts to monitor Michigan's state agencies through audits, reviews, and technical assistance, state agencies are responsible for monitoring their subrecipients. For example, MDE is responsible for monitoring its local educational agencies. An OIAS official told us that they observed MDE staff monitoring the local educational agencies in April 2010. They also told us that they plan to observe how the Michigan Department of Human Services—the state agency that oversees the Weatherization Assistance Program—completes on-site reviews of the local agencies that administer the program to determine if any changes to the Department of Human Services' review procedures are necessary.

The localities whose officials we spoke with typically conduct Recovery Act oversight through the Single Audit process. For example, the Detroit Housing Commission's audit for the year ended June 30, 2009, included Recovery Act funds HUD awarded to the commission. However, the in-

⁴¹The eight programs selected for review are the: (1) State Energy Program, (2) Byrne Memorial Justice Assistance Grant, (3) Grants to Local Educational Agencies, (4) Individuals with Disabilities Education Act – Special Education Grants, (5) School Improvement Grants, (6) Workforce Investment Act of 1998, (7) Clean Water/Drinking Water Revolving Funds, and (8) Weatherization Assistance Program.

⁴²In September 2009 we reported that the Department of Energy, Labor and Economic Growth should work with the Detroit WIA program to implement internal controls to address weaknesses with the program's payroll preparation and distribution process as well as program eligibility determinations. We also noted that the Michigan Department of Education, in coordination with Detroit Public Schools, will need to consider implementing procedures to provide reasonable assurance that Recovery Act funds are reported accurately and timely and used only for allowable purposes. [GAO-09-1017SP](#).

process audit of the Lansing Housing Commission and the City of Flint's completed audit for the year ended June 30, 2009, did not address Recovery Act funds because the audit period predated their Recovery Act spending. Officials in the Detroit Office of Auditor General told us that their office's Recovery Act initiatives included an internal control risk assessment and review of the control structure and the preparedness of three city departments that were allocated Recovery Act funds: Detroit's Department of Human Services, the Detroit Workforce Development Department,⁴³ and the Detroit Police Department. In October 2009, the Detroit Office of Auditor General recommended to the Detroit City Council that the city strengthen its overall reporting process to comply with the accountability and transparency requirements of the Recovery Act. The auditor's report noted that conditions related to weaknesses in reporting, bank reconciliations and other internal controls cited in the City's single audits increased the financial control risks of Recovery Act funds. In April 2010, officials from the Office of Auditor General told us that as the city's spending of Recovery Act funding increases, they plan to follow up on their preliminary work and anticipate that they may issue an updated assessment to city departments and the City Council after completion of follow-up work.

State and Locality Comments on This Summary

We provided the Governor of Michigan with a draft of this appendix and staff in the ERO reviewed the draft and responded on May 6, 2010. We also provided relevant excerpts to officials from the localities we visited. Officials agreed with our draft and provided technical suggestions that were incorporated, as appropriate.

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⁴³Our Recovery Act work includes the Workforce Investment Act of 1998 summer youth employment program. Michigan's Department of Energy, Labor and Economic Growth is the state agency that administers the program and does so in Detroit through the Detroit Workforce Development Department, one of 25 Michigan Works! Agencies. Please see our report, [GAO-09-1017SP](#) beginning at page MI-28 for a more detailed discussion of the control challenges that we identified.

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