

May 2010

RECOVERY ACT

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



GAO

Accountability * Integrity * Reliability

Appendix XI: Mississippi

Overview

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

What We Did

We reviewed two programs funded under the Recovery Act—the Weatherization Assistance Program and the Mississippi Clean Water and Drinking Water State Revolving Funds (SRF). We selected these programs because the Recovery Act significantly increased the programs' funding. Our work focused on the status of program funding, the programs' use of funds, and other issues. As part of our review of the Weatherization Assistance Program, we visited community action agencies located in Columbia, D'Lo, McComb, and Meridian. We also visited the Mississippi Department of Environmental Quality (MDEQ) and the Mississippi Department of Health (MSDH), which administer loans for clean and drinking water projects that are funded through the Recovery Act. For description and requirements of the programs we covered, see appendix XVIII of [GAO-10-605SP](#).

Our work in Mississippi also included meeting with officials of two Mississippi cities to determine the amount of Recovery Act funds each has or will receive directly from federal agencies and to learn how those funds are being used. We also wanted to determine the amount of Recovery Act funds that flow indirectly into these communities from state and federal agencies and the funds' impact on the communities. We chose to visit the cities of Hattiesburg and Greenwood. We selected Hattiesburg because its unemployment rate was below the state's average and it is one of the largest cities in Mississippi. We selected Greenwood because of its small population and because its unemployment rate is higher than the state's average.

What We Found

- **Weatherization Assistance Program.** The U. S. Department of Energy (DOE) allocated \$49.4 million in Recovery Act weatherization funding to Mississippi. Based on information available as of March 31, 2010, more than 2,400 homes have been weatherized statewide and \$8 million has been expended. To ensure that funds are expended

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

appropriately and efficiently, the Department of Community Services (DCS) monitors the programmatic and fiscal operations of its subgrantees, which execute the program. DCS cancelled its subgrant with one community action agency because of improper weatherization of homes and mismanagement of the program. We reviewed the amounts paid to contractors for labor for home weatherization and brought them to the attention of DCS, who determined that the amounts exceeded DCS' established guidance. DCS subsequently required the community action agency to reimburse DCS more than \$38,000 paid to contractors for excess labor charges.

- **Clean Water and Drinking Water revolving funds.** Two Mississippi agencies—MDEQ and MSDH—received \$35,665,000 and \$19,500,000 respectively, in Recovery Act funding for their Clean Water and Drinking Water SRF programs. Overall, bids on projects were lower than state estimates, freeing up Recovery Act funding for other projects. According to the Directors of the Clean Water and Drinking Water programs, the Environmental Protection Agency (EPA) has been slow to distribute guidance and states are left to decide how to monitor the implementation of Recovery Act requirements.
- **Localities' use of Recovery Act funds.** Both Hattiesburg and Greenwood received Recovery Act funds directly from federal agencies. Hattiesburg received a total of \$1,829,233 and Greenwood received a total of \$462,042. In addition, other entities within the cities of Hattiesburg and Greenwood received Recovery Act funds that did not directly affect the two cities' budgets, but did benefit the cities. According to city officials, Recovery Act funds helped Hattiesburg and Greenwood, but did not prevent budget reductions or meet all of the cities' critical needs.
- **State fiscal condition.** Mississippi continues to experience significant fiscal challenges. Tax revenue collections for July 2009 through April 2010, the first 10 months of fiscal year 2010, totaled \$300.4 million, or 7.7 percent below expectations. Based on the current revenue forecast, the expected shortfall for the fiscal year is projected to be \$499.1 million.
- **Accountability.** To ensure accountability and oversight over federal funds received by Mississippi, the Office of the State Auditor (OSA) conducts an annual Single Audit that reports on internal controls over financial reporting and compliance with pertinent laws and

regulations.² In addition, to provide increased oversight and accountability of Recovery Act funds, OSA has contracted with a national accounting firm, BKD, to assist with monitoring and oversight. BKD plans to monitor entities such as local governments, not-for-profit organizations, community health centers, and school districts. The Mississippi Department of Finance and Administration (DFA) is monitoring state agencies receiving Recovery Act funds. To do so, it has contracted with the accounting firm KPMG LLP to assess all state agencies for their compliance with Recovery Act provisions.

Mississippi Progresses in Weatherizing Homes and Curtails Abuse

DOE allocated \$49.4 million in Recovery Act funding to Mississippi for its Weatherization Assistance Program, which the Department has indicated is to be spent by March 31, 2012. This represents a large increase over prior years when DOE's allocation to Mississippi typically ranged from \$1.5 million to \$2 million. This large influx of Recovery Act funding has significantly increased the oversight responsibilities of DCS, the office within the Mississippi Department of Human Services (MDHS) that administers the Weatherization Assistance Program. DCS provides subgrants to community action agencies to weatherize homes and oversees these agencies' activities to ensure that homes are weatherized efficiently and economically and that contractors being used by the agencies perform quality work.

Of the total \$49.4 million in Recovery Act weatherization funds that DCS is to receive, \$35.5 million has been allocated to 10 community action agencies statewide to purchase materials and contract for weatherization services.³ DCS expects to use the remaining \$13.9 million, or 28 percent,

²Single 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.

³Initially 10 community action agencies weatherized homes using Recovery Act funding. However, as of March 4, 2010, DCS terminated funding to Southwest Mississippi Opportunity (SMO) and DCS officials stated that they plan to redistribute the remaining funds to other community action agencies for home weatherization.

for administrative costs, technical and training assistance, and audit fees for community action agencies' year-end audits by private accounting firms. According to information provided by DCS, of the \$13.9 million, the department will expend approximately \$8.6 million for training and technical assistance; \$4.9 million, shared equally by DCS and the community action agencies, for administrative costs; and \$255,000 for the audits performed by the accounting firms.

The Recovery Act has allowed states to increase the average amount of funds that may be used to weatherize a home. Formerly, DOE allowed an average of \$3,055 per home, but the Recovery Act increased this to a maximum average of \$6,500. DCS has directed community action agencies to allocate no more than \$4,500 of that amount for material and labor. The Director of DCS told us that he has also directed that labor cost should not be more than 125 percent of material costs. This action was taken after our work found that one community action agency's labor costs were 200 to 400 percent of material costs. DOE allows the remainder of the \$6,500 per home, or \$2,000, to be spent on overhead costs, such as program staff salaries, travel, supplies, rent, and utilities.⁴

DCS initially determined that it could weatherize a total of 5,468 homes with Recovery Act funds (\$35.5 million allocated to community action agencies divided by \$6,500). An agency official told us that the 5,468 homes is a minimum goal and is based on projected costs per home. Further, the official told us that should weatherization cost per home be less than \$6,500 additional homes will be weatherized.

DCS officials stated that they have divided the Recovery Act Weatherization Assistance Program into two segments. As shown in table 1, the first segment, which stretched from April 2009 through March 2010, called for the weatherization of 2,408 homes. The remaining 3,060 homes are to be weatherized during the second segment which runs from April 2010 through September 2011. DCS officials stated that the schedule for the second segment will reflect any additional homes that can be weatherized if the average cost per home remains less than the estimated \$6,500 (\$4,500 projected for labor and materials, plus \$2,000 for overhead).

⁴The overhead costs charged to each home are in addition to administrative costs that DOE allows the community action agencies to recover.

Table 1: Homes Weatherized, by Community Action Agency

Community action agency	Homes scheduled for weatherization	Actual number of homes weatherized	Variance	Average cost of homes weatherized ^a
Bolivar County	117	145	28	\$2,120
Central Mississippi, Inc.	136	204	68	3,722
Lift, Inc.	167	196	29	2,492
Multi-County	248	248	0	3,131
Northeast	88	127	39	3,568
Pearl River Valley Opportunity	429	404	(25)	3,001
Prairie Opportunity	230	254	24	3,788
South Central	337	392	55	3,393
Southwest Mississippi	236	48	(188)	3,016
Warren Washington Issaquena Sharkey	420	442	22	3,769
Total	2,408	2,460	52	\$3,278

Source: Mississippi Department of Human Services/Division of Community Services.

Note: All data through March 31, 2010

^aAverage cost includes labor and materials.

As of March 31, 2010, the community action agencies had weatherized a total of 2,460 homes, or 45 percent of the 5,468 scheduled to be weatherized. Although the total number of homes weatherized is ahead of schedule, one community action agency—Southwest Mississippi Opportunity (SMO)—was 188 homes behind schedule because of poor performance. As discussed later in this appendix, DCS officials stated that they directed SMO to halt new weatherization activities and subsequently terminated SMO’s weatherization subgrant. According to the DCS Director, SMO’s backlog of homes will be redistributed between South Central and Warren Washington Issaquena Sharkey community action agencies.

Oversight of Weatherization Assistance Program Exceeds DOE Requirements

DOE requires that at least 5 percent of all homes weatherized each year be inspected by the state, but DCS monitors 22.5 percent of all weatherized homes. DCS regional weatherization coordinators are required to monitor 20 percent of all completed homes. DCS state-level personnel re-inspect 10 percent of the homes inspected by regional personnel, and an additional 2.5 percent of homes that have not been inspected. During the second segment of their work, DCS officials told us that they have set a new goal of inspecting 40 percent of all weatherized homes. To carry out its monitoring activities, DCS has four site coordinators and six regional

coordinators performing home inspections and it plans to hire an additional six regional coordinators.

The Division of Program Integrity (DPI), within MDHS, also has oversight responsibilities. DPI is required to examine the fiscal and programmatic records of the community action agencies and DPI officials stated that their division is to inspect 10 percent of the total number of homes weatherized. Currently, DPI has a staff of two to inspect homes and plans to hire one additional staff member.

Oversight by Division of
Community Services Identified
Program Weaknesses

According to DCS and community action agency officials, DCS personnel monitor the community action agencies' weatherization activities on a regular basis. As of March 31, 2010, the community action agencies had weatherized 2,460 homes using Recovery Act funds and DCS staff reported that DCS monitors had inspected 810, or 33 percent of homes weatherized, exceeding DOE's requirement of 5 percent. DCS staff noted that problems found during home inspections included improperly installed smoke and carbon monoxide detectors and incomplete work by contractors, such as homes that were not properly insulated. The Director of DCS told us that if a contractor is required to return to a home to complete improper work, the work must be performed at the contractor's expense.

As part of the inspection process, DCS monitors also review client files for accuracy and completeness. Monitors stated that some of the problems found most often in client files are incomplete labor invoices and unfinished weatherization checklists. DCS staff explained that when problems are identified, DCS directs community action agency officials to correct the problem. We also reviewed client files at four community action agencies and identified inconsistencies in the reporting of labor costs. We discussed these findings with DCS and as a result, DCS has created a uniform labor invoice to be used by all community action agencies.

Serious Deficiencies at
One Community Action
Agency Led to Termination
of Weatherization
Activities

During routine monitoring at the SMO community action agency, DCS found problems that resulted in the termination of the agency's subgrant. SMO was allocated approximately \$3.6 million of Recovery Act funds to weatherize 507 homes in 10 counties. DCS monitors who reviewed client files and inspected homes weatherized by SMO contractors found that client files were incomplete and, according to DCS officials, work performed on many of the homes was of poor quality. DCS provided written notification to SMO on multiple occasions, alerting SMO officials to the problems identified as well as directing SMO to correct the

SMO Given Numerous Opportunities to Correct Deficiencies

problems. DCS officials stated that they also provided additional training to SMO staff in an attempt to correct problems it saw as pervasive. According to DCS officials, when SMO did not achieve the results that DCS considered necessary, DCS terminated SMO's Recovery Act Weatherization Assistance Program.

From September 2009 through February 2010, DCS completed numerous reviews of SMO's operations and home weatherization activities. During these reviews, DCS found that SMO was not in compliance with DCS policies and procedures. For example, the work that contractors were directed to complete did not match the work performed on homes; documents were missing from client files or were incomplete; an equipment inventory had not been maintained; and SMO had not provided adequate oversight and assistance to contractors to ensure that laborers were paid prevailing wages.⁵ Site visits to homes weatherized by SMO contractors also revealed poor quality work. Insulation in walls did not meet specifications; non-vented heaters were not removed from homes that had been weatherized; and SMO inspectors were not testing homes for carbon monoxide.

After each visit, DCS notified SMO's Executive Director of the deficiencies and directed him to make corrections. To assist SMO officials, DCS also provided additional training and information for SMO contractors. In early October, after finding continuing problems with client records and with completed homes, DCS also notified SMO that it was not to weatherize additional homes and that it was to correct the problems found in the homes it had weatherized.

During January and February, we reviewed client files as well as data provided by SMO and DCS personnel and found several problems, which we shared with DCS. Our review of labor and material costs showed that in some cases the cost of labor exceeded material cost by 200 to 400 percent, which greatly exceeded DCS' established guidance at the time. As a result of these findings, DCS established a state-wide policy limiting labor costs to 125 percent of material costs. At our request, the Executive Director of SMO also provided documentation that showed the community

⁵The Recovery Act requires all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the federal government with Recovery Act funds be paid wages at rates that are not less than those paid on local projects of a similar character as determined by the Secretary of Labor. Recovery Act § 1606, 123 Stat. 303.

action agency had incurred more than \$16,000 in rework costs to bring 23 of the 40 homes that it had weatherized up to standard.

Officials told us that SMO's weatherization coordinators did not respond to DCS training and that SMO's lead weatherization coordinator stated that the demands of supervising the weatherization program were overwhelming. The officials attributed SMO's problems to its failure to hire enough qualified personnel to effectively operate the program, as well as to poor program management. Officials also stated that because SMO was unable to correct the deficiencies in its weatherization program, DCS held a public hearing on March 4, 2010, that terminated SMO's Recovery Act Weatherization subgrant.

DCS officials stated that SMO will be responsible for reimbursing more than \$38,000 in Recovery Act funding to DCS for excessive labor expenditures. The Director of DCS also told us that SMO will be required to repay any additional labor and material costs incurred to correct poor quality workmanship in completed homes. Finally, the Director gave SMO 30 days to show that contractors had paid all laborers the prevailing wage as required by the Recovery Act, or DCS would report SMO to the Department of Labor.

The Director of DCS told us that SMO's problems have increased the costs of his division. He told us that the cost of re-inspecting and reworking the homes SMO weatherized and the cost of providing oversight and monitoring of SMO will amount to about \$50,000. This includes the cost of bringing in state coordinators and staff from other community action agencies to review client files and the cost of training SMO staff and contractors. Costs are expected to increase as homes are redistributed to other community action areas and additional staff are hired and trained. The director of DCS stated that Recovery Act funds set aside for training, technical assistance, and administrative efforts will pay for the additional cost.

Division of Program Integrity Was Unaware of Program Weaknesses at Problem Community Action Agency

The Division of Program Integrity (DPI) is an independent division of MDHS that monitors all sub-grants from MDHS and assesses the audit findings for and corrective action plans of MDHS funding divisions. DPI officials stated that they monitor fiscal and programmatic records, compare costs with the monthly reporting worksheets, and conduct both payroll and non-payroll cash disbursement tests. Further, officials stated that DPI tests equipment purchases to ensure that the purchases are authorized, are used for the job specified, and have appropriate invoices.

DPI's Oversight of
Weatherization Program Is
Limited

Officials also told us that DPI checks the fiscal and programmatic internal controls of community action agencies.

As of March 31, 2010, DPI officials stated that they had visited 5 community action agencies that are responsible for Recovery Act weatherization programs and inspected a total of 87 of the 2,460 homes that have been weatherized throughout the state. In comparison, as of March 2010, DCS officials reported that they had inspected 810 homes. As discussed previously, DPI only has 2 staff conducting homes inspections whereas DCS has a total of 10 staff.

DPI monitors visited SMO in early December 2009 and inspected the files and homes of 10 clients, as well as SMO's fiscal and program operations. During its review, DPI did not find any of the problems that were identified by DCS during the same period. A draft report prepared by DPI stated that there were no significant adverse findings noted during its review of SMO.

DPI Unaware of Problems at
SMO Due to Lack of
Coordination

DPI conducted its review of SMO during the same period that DCS personnel were reviewing and monitoring SMO's weatherization activities. DPI found nothing significant during its review of SMO even though 3 weeks after DPI's review DCS issued a letter to SMO's Executive Director that listed numerous problem areas. DPI officials stated that they were not aware of the ongoing DCS review of SMO. Nor were DPI officials aware that in October 2009, DCS told SMO that it was not to weatherize additional homes. DPI officials also told us that they were unaware that homes weatherized by SMO required additional work or that there was a backlog of 188 homes waiting to be weatherized. In addition, DPI's review determined that SMO was in compliance with all state regulations and policies and the requirement to pay laborers the prevailing wage for the area. In contrast, in a December 29, 2009, letter to SMO, DCS stated that its monitors found that SMO was not in compliance with state procurement regulations and was not paying laborers the prevailing wage. DPI monitors also determined that SMO had adequate accounting and administrative internal controls and that SMO had a system in place that allowed all required financial reports to be completed correctly and submitted before reporting deadlines. In contrast, the DCS December 29, 2009, letter stated that SMO was unable to show DCS a monitoring system that ensured programmatic and administrative controls were in place, and that SMO did not meet reporting requirement standards.

In the future, DPI and DCS officials plan to meet once a month to discuss ongoing reviews and to better coordinate their work. DPI monitors have

also attended weatherization training conducted by DCS. In addition, DPI plans to hire one additional weatherization monitor to assist in conducting reviews of community action agencies.

Recovery Act Significantly Increases Funding for Mississippi Clean Water and Drinking Water Programs

MDEQ and MSDH administer loans for Clean Water and Drinking Water projects that are funded through the Recovery Act. MDEQ administers the Clean Water SRF program, which provides assistance in constructing publicly owned municipal wastewater treatment plants and implementing pollution management programs. MSDH is in charge of the Drinking Water SRF that provides assistance to public water systems in meeting requirements of the Safe Drinking Water Act.⁶ MDEQ received \$35,665,000 in Recovery Act funding for the Clean Water program, which is nearly six times the amount that the department received in fiscal year 2008. Similarly, MSDH received \$19,500,000, about six times as much as it received in fiscal year 2008, to support the Drinking Water program.

According to the Directors of the Clean and Drinking Water SRF programs in Mississippi, the programs operate much like environmental infrastructure banks that are capitalized with federal and state contributions.⁷ The Directors explained that base SRF programs are normally funded by grants from EPA and by state matching funds equal to about 20 percent of the federal funds. These funds, according to the Directors, are loaned to communities and loan repayments are recycled back into the SRF program to fund additional water projects and create a continuing source of assistance for communities, known as subrecipients. Both Directors stated that the Clean Water and Drinking Water SRF programs distributed all Recovery Act funds to subrecipients in the form of principal forgiveness, meaning that communities are not required to repay the portion of their loan provided with these funds. Communities will repay the portion of their loan financed with normal state revolving funds at the programs' normal loan terms.

⁶The Safe Drinking Water Act, as amended, requires public water systems to take actions to protect drinking water. Public water systems must comply with federal drinking water standards set by EPA based on their type and size. The health based standards set by EPA, considering feasibility, are intended to protect drinking water consumers against certain naturally and man-made contaminants that may be found in drinking water. EPA, states, and water systems each have roles in ensuring that these standards are met. See 42 U.S.C. § 300f *et seq.*

⁷Environmental Infrastructure banks make loans that provide capital for a wide variety of environmental projects within a range of market interest rates.

**All Mississippi SRF
Projects Met the February
17, 2010 Recovery Act
Deadline**

The Recovery Act required a project receiving Recovery Act funding to be under contract by February 17, 2010, otherwise EPA would have to reallocate the funds. According to the Clean Water SRF and Drinking Water SRF Directors, all projects receiving Recovery Act funds met the February 17, 2010, deadline. The Clean Water SRF Director told us that to ensure that all projects met the February deadline, the program established an internal deadline of February 8, 2010. In contrast, the Drinking Water SRF Director told us that his program did not set an internal deadline, but verbally urged all recipients of Recovery Act funds to award contracts for their projects as soon as possible.

The Clean Water SRF Director also explained that to ensure contracts for Clean Water SRF were signed by the Recovery Act deadline, the program required applicants to complete the design of their proposed project prior to submitting it for loan approval. This requirement, according to the Director, deterred some applicants because they had to plan and design the project without the guarantee that they would receive funding.

**MDEQ and MSDH Use a
First Come, First Serve
Approach to Select
Recovery Act Projects**

According to both SRF Directors, communities that completed all applicable program requirements and were ready to advertise for construction bids were the first to receive loans made with Recovery Act funds. The Clean Water SRF Director stated that Mississippi's Clean Water SRF program provided Recovery Act funds for the construction of new treatment facilities, replacement of older pumps with more energy efficient models, rehabilitation of sewer lagoons, improvement of levees, and realignment of old sewer lines with new material that will keep sand out of the ground water system. The Drinking Water SRF director told us that the program provided Recovery Act funds to communities to construct new water lines, install new elevated tanks or storage reservoirs, and construct new drinking water booster and pump stations, treatment plants, and water wells.

According to its Director, the Clean Water SRF program chose to forgive a portion of the loan principal on all qualified Recovery Act projects, which means that communities will not be responsible for repaying the portion of their loan provided by Recovery Act funds, but will repay the portion provided with base Clean Water SRF funds. The Director told us that half of all clean water projects that received Recovery Act funding were first time recipients of Clean Water SRF funds. In addition, the Director stated that the program had three large energy efficiency projects that assisted the Clean Water SRF program in meeting the Recovery Act Green Reserve requirement. This requirement, according to both SRF Directors, sets aside

20 percent of Recovery Act funds for projects that address green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. Both Directors explained that MDEQ and MSDH were responsible for determining the eligibility of green reserve projects; however, according to EPA's Office of Inspector General, EPA did not develop and issue clear and comprehensive guidance for states on determining green project eligibility until after many states had selected their green projects.⁸

According to the Director, the Drinking Water SRF program chose to use Recovery Act funds to fully forgive the loan principal for some projects and partially forgive the principal for others. The Director explained that communities receiving SRF loans made entirely from Recovery Act funds will not be required to repay any part of that loan. The Director told us that the Drinking Water SRF program provided total principal forgiveness to 4 projects, with the remaining 16 projects receiving a combination of Recovery Act and base SRF dollars.

Some Project Bids Are Lower Than State Estimates, While Others Are Higher

The Clean Water SRF Program Director stated that in general contractor bids came in lower than the state's estimates for project costs. The Director explained that the lower bids freed up Recovery Act funds to increase funding for two clean water projects that had not received all allowable principal forgiveness. According to the Director, the state could provide principal forgiveness amounting to 50 percent of the initial loan if the community's median household income was equal to or greater than the state median household income. The amount of the loan principal that could be forgiven increased to 85 percent if the community's median household income was less than the state's median household income. However, the Director explained that the maximum amount of principal forgiveness for any single community was \$5 million.

Specifically, according to the Clean Water SRF Director, the lower bids received for clean water projects freed up \$1.9 million of Recovery Act funds. This, according to the Director, allowed two communities to reduce by \$510,000 the cumulative loan amount that they will be required to repay. In addition, it allowed the SRF program to set aside the remaining

⁸EPA Office of Inspector General, *EPA Needs Definitive Guidance for Recovery Act and Future Green Reserve Projects*, EPA-OIG Report No. 10-R-0057, February 1, 2010.

\$1.4 million, or 4 percent of the total amount of Recovery Act funds received by Clean Water SRF, for administrative activities.⁹

According to the Drinking Water SRF Director, although a number of contractor bids for drinking water Recovery Act projects came in under state estimates, overall the bids balanced out. The Director explained that the bids for water distribution projects, such as construction of new water lines, the installation of new elevated tanks or storage reservoirs, and the construction of new drinking water booster and pump stations were lower than department estimates; however, the bids for overhead water tanks, treatment plants, and water wells were higher than state estimates. The Director attributed this difference to the number of contractors available and competition for work.

SRF Directors Found EPA Guidance Vague and Open to Interpretation

EPA has been slow to distribute guidance, according to both SRF Program Directors. The Directors told us that the state was left to decide how to monitor the implementation of Recovery Act requirements and provisions and that the guidance EPA provided on other subjects was vague and left to state interpretation. Two Clean Water SRF subrecipients stated that the guidance provided by EPA on substantial transformation for Buy American requirements was unclear and left too much room for interpretation by government inspectors. Section 1605 of the Recovery Act generally requires assistance recipients to use domestic iron, steel, and manufactured goods that are produced in the United States when working on public buildings or public works, though this requirement is subject to multiple exceptions. According to EPA guidance, a manufactured good that consists in whole or in part of materials from another country meets the Section 1605 requirement if it is substantially transformed in the United States into a new and different manufactured good, distinct from the materials from which it was transformed. However, two loan recipients told us that government inspectors are left to decide whether substantial transformation has taken place.

In addition, MDEQ staff also explained that they had challenges dealing with rapidly changing rules and guidance. Clean Water SRF program staff stated that additional work imposed by the Recovery Act and the Office of Management and Budget's issuance of new guidance on reporting job

⁹The Clean Water Act caps the amount of Recovery Act funds that can be used to support administrative activities at 4 percent. 33 U.S.C. § 1383(d)(7).

creation/retention so close to the recipient reporting deadline increased their workload significantly. However, Clean Water SRF officials told us that the program could not afford to hire additional employees.

Existing Controls Used to Monitor Recovery Act Projects

The Clean Water and Drinking Water SRF programs, according to both SRF Directors, did not make any changes to existing oversight policies and procedures to monitor projects receiving Recovery Act funding. Officials from both programs stated that Recovery Act projects do not require more monitoring than other SRF projects. The Clean Water SRF program administrators told us that all project requirements and responsibilities are clearly stated in contracts signed by project subrecipients and contractors. Both SRF Directors told us that if any project requirements are not met, subrecipients and contractors do not get paid; additionally, MDEQ and MSDH reserve the right to revoke funding and reallocate the money to another project.

According to the program Directors, all SRF projects are monitored by an on-site consulting engineer whether the project is receiving Recovery Act dollars or base SRF dollars. The Directors explained that the consulting engineer is not associated with the contractor responsible for completing the project, but is a contractor for the local governmental entity. The engineer is on-site any time significant work is performed on the project to ensure that contract requirements are met. The Directors also stated that contractors verify that laborers and mechanics are paid prevailing wages by conducting random interviews of all workers at the jobsite. In addition, the Directors told us that contractors submit a certification with each pay request as another way to ensure that workers are paid the prevailing wage, that the random interviews to confirm the wage rate were conducted, and that periodic reviews of a representative sample of the payroll data have been performed. Along with each pay request, contractors also submit a Buy American Certification, which, according to the Directors, assures that all goods used in the project are manufactured in the United States and meet the Buy American requirement of the Recovery Act.

To meet recipient reporting requirements, subrecipients receiving Clean Water SRF or Drinking Water SRF are required to report the number of jobs funded by Recovery Act projects. In some cases, according to the Directors, certified payrolls are required to ensure that the data reported are correct and workers are paid the prevailing wage rate. However, the Directors stated that MDEQ and MSDH do not have the time or manpower to compare the data reported against certified payrolls. Although MDEQ

and MSDH staff told us that neither program validates the jobs information that is reported by subrecipients of Recovery Act funds, both MDEQ and MSDH check for outliers and ensure that reported data is complete.

Recovery Act Funds Benefit Cities, but Do Not Prevent Budget Reductions

We visited two Mississippi cities—Greenwood and Hattiesburg—to assess the impact the Recovery Act is having on local government. Greenwood lies on the eastern edge of the Mississippi Delta, about 96 miles north of the state’s capital, and is the 26th largest city in the state in terms of population. According to a 2008 U.S. Census Bureau estimate, Greenwood’s population is 16,084, which is a decline of approximately 13 percent since 2000. According to the last complete census, about 65 percent of Greenwood’s citizens are African American, 33 percent are Caucasian, and 2 percent are various other races. The census also showed that Greenwood’s median household income is \$21,867, or a little over half of the U.S. median household income. The population of Hattiesburg, which lies about 87 miles southeast of the state capital, is 51,993, according to a 2008 Census Bureau estimate. Between the years of 2000 and 2008, Hattiesburg, Mississippi’s third largest city, increased in population by about 13.2 percent. The racial composition of the city’s residents, according to the last complete census, is about equally split between African Americans (47.3 percent) and Caucasians (49.9 percent), with other races represented by small percentages. Census data also shows that Hattiesburg’s median household income of \$24,409 is larger than that of Greenwood, but still well below the U.S. median household income of \$41,994.

Greenwood is home to several large corporations, including Viking Range, Milwaukee Electric Tool, and Heartland Catfish. Conversely, Hattiesburg, according to Moody’s Investor Services, has developed into a diverse trade and service center, along with becoming a regional health care center. Moody’s reported that Hattiesburg’s largest employers are state-owned Camp Shelby and Forrest County General Hospital. The University of Southern Mississippi is also located within the city and, with an enrollment of approximately 15,000, is the third largest university in the state. In the opinion of Moody’s Investor Services, the presence of the university and other institutional facilities provides some degree of economic stability to the city.

Recession Forces Cities to Tighten Budgets

Greenwood and Hattiesburg officials told us that their cities first began to feel the effects of the recession in late 2008 and early 2009. This is supported by unemployment figures that show the unemployment rates

were relatively stable from 2006 through 2007 but rose more than 2 points in 2009 and even more in 2010. With more people out of work, Greenwood and Hattiesburg officials expected sales tax collections to drop, which the cities reflected in their general fund budgets.¹⁰ Table 2 shows each city’s unemployment rates and sales tax collections for fiscal years 2007 through 2010.

Table 2: Greenwood and Hattiesburg Unemployment Rates and Sales Tax Collections

Fiscal year	Greenwood ^a				Hattiesburg			
	Unemployment rate	Percent change in rate	Sales tax collections	Percent change in collections	Unemployment rates	Percent change in rates	Sales tax collections	Percent change in collections
2007	10.3%		\$4,453,970		6.4%		\$22,545,201	
2008	9.7%	(0.6%)	\$4,433,128	(0.47%)	6.3%	(0.1%)	\$22,362,399	(0.8%)
2009	12.2%	2.5%	\$4,325,125	(2.4%)	8.3%	2.0%	\$20,594,947	(7.9%)
2010	15.1%	2.9%	\$4,162,000 ^b	(3.8%)	10.5%	2.2%	\$19,500,000 ^b	(5.3%)

Source: Mississippi Department of Employment Security, January 2010 publication and sales tax collections provided by the City of Greenwood and the City of Hattiesburg.

^aThe unemployment rates presented for Greenwood are the rates for LeFlore County, that includes Greenwood. The Mississippi Department of Employment Security does not maintain separate unemployment data for Greenwood.

^bFiscal Year 2010 sales tax collections are projections based on collection of sales taxes through March 2010.

Both Greenwood and Hattiesburg reduced general fund expenditures of city departments to address declining sales tax collections. Between 2008 and 2010, Greenwood reduced capital outlays—expenditures for equipment and projects needed to provide city services—to zero for all city departments, with the exception of the police and fire departments. However, the capital outlay budgets for these departments were limited. The city budgeted \$25,000 in 2010 to purchase a fire department vehicle and \$4,220 for police department equipment. In addition to reducing General Fund Capital Outlay budgets, Greenwood’s City Clerk told us that in fiscal year 2010, the city also used some of its cash on hand to balance its operating budget.

Hattiesburg chose to make its primary reductions in city budgets to accounts that pay for services or repairs performed by outside vendors,

¹⁰Sales tax revenues are accounted for in a city’s general fund, which is the city’s primary operating account.

including services provided by engineers, attorneys, and consultants. Comparisons of the city's fiscal year 2008 and 2010 budgets show that the cumulative reduction to all city departments' budgets for these "other services and charges" was about 29 percent. Hattiesburg's capital outlay budget actually increased between the 2008 and 2010 budgets. However, according to the Chief Financial Officer, the city's increase in capital outlays is partially accounted for by the receipt of Recovery Act funds.

City officials in Greenwood and Hattiesburg told us that reductions to their city's general fund expenditures have prevented layoffs and furloughs of city personnel. However, Greenwood officials told us that they are not replacing personnel who retire or leave the city's employment. Hattiesburg's Chief Financial Officer also told us that the Mayor was not calling for raises for city employees this year, although that has been one of the mayor's major initiatives in prior years.

Recovery Act Dollars Are Beneficial, but Did Not Prevent Budget Reductions or Meet All Critical Needs Recognized by Officials

Funds provided by the Recovery Act, according to city officials, helped Greenwood and Hattiesburg initiate projects that were needed and that would not otherwise have been possible. However, because Recovery Act funds were provided for specific purposes, the funds could not be used to replace all budget cuts made to address declining sales tax collections. In addition, city officials told us that although some of the funds received addressed infrastructure needs, which the officials identified as a priority for their cities, the needs far exceeded the Recovery Act funds received.

Both cities received Recovery Act grants. Greenwood received two, both awarded by the Department of Justice—an Edward Byrne Memorial Justice Assistance Grant (JAG) and a COPS Hiring Recovery Program grant (CHRP). Hattiesburg received four grants, which were awarded by the Department of Energy (DOE), the Department of Housing and Urban Development (HUD), the Department of Transportation (DOT), and the Department of Justice (DOJ). Table 3 presents the Recovery Act grants that Greenwood and Hattiesburg received from the various federal agencies, the amount of each grant, and the specific purpose for which each grant was used.

Table 3: Recovery Act Funds Received Directly by the Cities of Greenwood and Hattiesburg

City receiving grant	Funding agency				Planned use of funds
	Department of Justice	Department of Energy	Housing and Urban Development	Department of Transportation	
Greenwood	\$347,052 COPS Hiring Recovery Program Grant (CHRP)				Used to hire three full-time police officers
	\$114,990 Justice Assistance Grant (JAG)				Provides overtime pay for officers to patrol high-crime areas during summer months when crimes are most prevalent
Hattiesburg	\$134,390.40 Justice Assistance Grant (JAG)				Allows the city to purchase six police vehicles
		\$536,400 Energy Efficiency			Allows the removal of an older aeration system from a water treatment facility lagoon and its replacement with a new energy efficient diffusion treatment system
			\$166,632 Community Development Block Grant		Provides for the repair and construction of sidewalks in an area of Woodley Elementary School
				\$991,811 Transit Capital Assistance Grant	Allows the city to purchase one trolley bus and a new transportation management system, as well as reconstruct bus stops to comply with Americans with Disabilities Act requirements

Source: Recovery.gov and interviews with Hattiesburg and Greenwood officials.

The Recovery Act grants provided extra funds for the budgets of some Greenwood and Hattiesburg city departments, but did not affect many other departments whose budgets were reduced as sales tax collections declined. For example, Department of Justice JAG and CHRP grants increased the Greenwood Police Department’s Personnel Services budget by \$462,042, allowing the department to hire additional officers and place more officers on the street for longer hours. However, none of the Recovery Act funds received by Greenwood could be used for other city departments, such as the Public Works and Parks and Recreation departments, whose capital outlays budgets were reduced to zero in fiscal

years 2009 and 2010. Similar to Greenwood, Hattiesburg's Chief Financial Officer told us that the Recovery Act grants increased revenue for some general fund and specific use accounts, but could not be used in ways that would have prevented all general fund budget reductions.¹¹

Both Greenwood and Hattiesburg officials identified infrastructure improvements as their city's most pressing need. The Director of Greenwood's Public Works Department told us that the city's streets and sewer lines require immediate attention. The Mississippi Department of Transportation (MDOT) is improving about 2.25 miles of streets in Greenwood with MDOT Recovery Act funds that are available to improve streets considered connectors or collectors of the National Highway System.¹² However, the Director said that many other streets that do not qualify for federal funding are in need of repair.¹³ Greenwood budgets show that in 2010, the city had \$151,350 available for this purpose. Although the city does not have a street improvement plan that identifies the cost of making all needed street repairs, the Director told us the cost would greatly exceed the funds available. He also told us that the city's sewer system is aging and badly in need of improvement, and that recently, three cave-ins ruptured sewer lines and forced the city to make emergency repairs. Although the Director did not have an estimate for the cost of sewer projects that are needed in the near future, he told us that he estimated the cost would be significantly more than \$10 million.

Hattiesburg's City Engineer, as well as other Hattiesburg city officials, identified sewer and water improvements as Hattiesburg's greatest needs. However, the engineer also noted that city roads and bridges need improvement as well. According to a plan developed by the city's Public Works Department and engineering consulting firm, within the next 5 years Hattiesburg needs about \$21 million to make water line improvements; around \$6 million for sewer system improvements; and approximately \$47 million to complete 15 road projects and improve aging bridges. In fiscal year 2010, Hattiesburg budgeted about \$9 million to

¹¹Some revenue received by cities is separated from the general fund because it is only available for a specific type of expenditure. For example, a city may establish a Water and Sewer Operation and Maintenance fund that receives revenue from the fees that citizens pay for these services. The revenue in this account can only be used for expenditures that allow the city to provide this service.

¹²23 U.S.C. § 133(b)(1).

¹³23 U.S.C. § 133(c).

Recovery Act Funds Could Have Been Used to Improve Sewer System

improve water and sewer lines and about \$5.5 million to improve city roads and bridges. However, the \$536,400 DOE grant for improving the aeration of one city lagoon is included in the \$9 million available for water and sewer improvements, which means that about \$8.5 million is available for additional projects in 2010.

Both Greenwood and Hattiesburg would have been eligible for Recovery Act funds to improve their sewer systems through the Clean Water SRF and Hattiesburg could have also applied for Drinking Water SRF funding for new water lines, pumps, and tanks.¹⁴ However, according to the cities' officials, neither Greenwood nor Hattiesburg applied for the funds. According to the Director of Mississippi's Clean Water SRF, using the state's Recovery Act funding, the state could provide principal forgiveness amounting to 50% of the initial loan amount for a project if the community's median household income was equal to or greater than the state median household income. The amount of principal forgiveness, that is, the amount that did not have to be repaid, would increase to 85 percent for communities with a median household income that was less than that of the state. The maximum Recovery Act Clean Water SRF loan principal forgiven for any single community was \$5 million. If Greenwood and Hattiesburg had submitted clean water projects and the state had approved the projects, each city could have qualified for principal forgiveness up to \$5 million. Greenwood officials told us that the city's current administration was unaware that Recovery Act funding was available for sewer improvements.

In addition to being eligible for a Clean Water SRF loan, Hattiesburg might also have qualified for a Drinking Water SRF loan. Similar to the Clean Water SRF program, the amount of principal forgiveness that a community could receive for a Drinking Water project was based on the community's median household income. Hattiesburg's Chief Engineer said that the city was aware that Recovery Act funds were available and intended to apply for them, but the city misunderstood the application deadline.

¹⁴According to the Directors of the Clean and Drinking Water programs, projects that met all requirements for eligibility and readiness to proceed were selected to receive Recovery Act funding on a first come, first serve basis.

Other Local Entities Also Benefit from Recovery Act Funds, but Experience Challenges in Using Funds for Greatest Needs

Other entities within the cities of Greenwood and Hattiesburg received Recovery Act funds that did not directly affect the two cities' budgets, but did benefit the cities. Table 4 identifies two Greenwood and four Hattiesburg entities that received Recovery Act funding. During interviews we conducted with each of the six entities, officials described how the Recovery Act funds have benefited and could potentially benefit the populations that their entities serve.

Table 4: Other Greenwood and Hattiesburg Entities Receiving Recovery Act Funds

Entity	Program/project funded	Amount received	Realized benefits	Potential benefits
City of Greenwood				
Greenwood Public School District	ESEA Title I ^a ; SFSF ^b ; and IDEA ^c	\$4,486,214	<ul style="list-style-type: none"> • Employment for 15 new staff • Current employee salaries for the 2009 school year • Instructional technology 	<ul style="list-style-type: none"> • Lower incidences of student drop-outs^d • Higher percentages of parental involvement and graduations^d • Better educated public^d
Housing Authority of Greenwood	Capital Fund Program	\$913,410	<ul style="list-style-type: none"> • Siding, fence replacement, painting, bath tub restoration, and new refrigerators for 408 housing units • Foundation correction for one vacant unit 	<ul style="list-style-type: none"> • Better housing for residents^e
City of Hattiesburg				
University of Southern Mississippi	Edward Byrne Memorial Competitive Grant; SFSF	\$7,179,888	<ul style="list-style-type: none"> • Seven Campus Security Officer salaries for the 2009 and 2010 school years • 5,226 scholarships for the 2009 school year 	<ul style="list-style-type: none"> • Reduces crime^d • Improves local economy^d
University of Southern Mississippi State-Wide 1808 Funded School District	IDEA	\$77,503	<ul style="list-style-type: none"> • Employment for three new staff 	<ul style="list-style-type: none"> • Reduces the number of children waiting to enroll^d • Provides additional instructional support^d • Increased parental involvement^d
Hattiesburg Public School District	Title I; SFSF; and IDEA	\$5,528,151 estimated	<ul style="list-style-type: none"> • Current employee salaries for the 2009 school year • Instructional technology • Professional developmental opportunities for staff • Continued implementation of district-wide school transitional model • Travel funds for early intervention program • Classes for parents of children with disabilities 	<ul style="list-style-type: none"> • Lowers incidences of student dropouts^d • Increased parental involvement^d • Higher percentage of graduations^d • Better educated public^d

Entity	Program/project funded	Amount received	Realized benefits	Potential benefits
Housing Authority of Hattiesburg	Capital Fund Program	\$551,249	<ul style="list-style-type: none"> New roofs, kitchen cabinets, and HVAC units for single family residences 	<ul style="list-style-type: none"> Better housing for residents^o

Source: Recovery.gov, and interviewees.

^aTitle I, Part A of the Elementary and Secondary Education Act of 1965, as amended.

^bState Fiscal Stabilization Fund.

^cIndividuals with Disabilities Education Act, as amended.

^dPotential Benefits are based on local officials' opinion.

^ePotential Benefits are based on GAO conclusion.

Officials also explained that the Recovery Act presented certain challenges in using the money in ways that were most needed. In particular, Hattiesburg officials were concerned with Department of Education guidance that suggested that local educational agencies not invest their funding in ways that would result in unsustainable continuing commitments after the act's funding expires. Because of this guidance and the looming threat of additional state budget cuts, officials with the Hattiesburg Public Schools District decided that they could not use their funding to fill positions that would greatly benefit their district, including hiring social workers, nurses, and psychologists. Conversely, the Greenwood Public School District and the University of Southern Mississippi decided to hire staff even though they were unsure as to whether they would be able to continue to pay them after their Recovery Act funds expired.

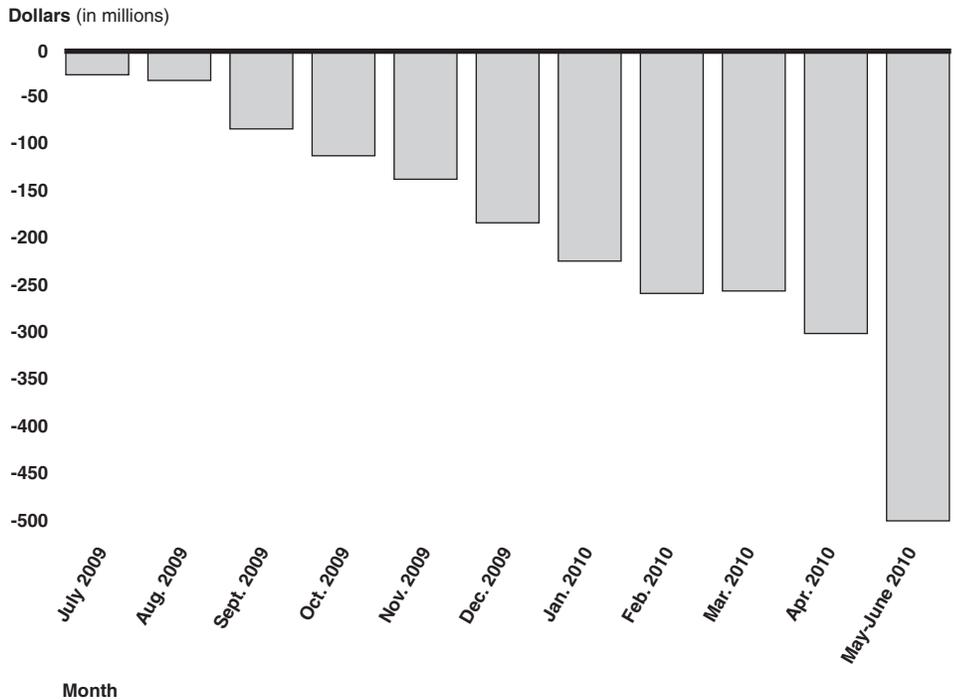
In addition, officials from the Housing Authority of Hattiesburg explained that although the Recovery Act had enabled them to improve many of their 56 single family units, they did not receive enough funding to fulfill the authority's largest need: the construction of new apartment buildings. According to housing authority officials, the authority's current apartment buildings, which were built in the 1940s, are the oldest public housing units in the state. In addition, officials from the housing authority explained that the apartments lack many of the amenities available to low-income families that hold housing vouchers, which means that the housing authority cannot compete with other housing options that are offered to these families.

Mississippi's Fiscal Challenges Continue

The state of Mississippi continues to experience significant fiscal challenges. While tax revenue collections for fiscal year 2009 were more than \$384 million below estimates, tax revenue collections for fiscal year

2010 are projected to decline even more. As shown in figure 1, tax revenue collections for July 2009 through April 2010, the first 10 months of Fiscal Year 2010, were \$300.4 million or 7.7 percent below expectations. Based upon the current revenue forecast, the expected shortfall for fiscal year 2010 is projected to be \$499.1 million. The major causes for decreasing tax revenue are declines in sales and individual income taxes.

Figure 1: Aggregate Revenue Shortfall for Fiscal Year 2010



Source: GAO analysis based on Mississippi Department of Finance and Administration and Joint Legislative Budget Committee documents.

In the face of declining tax revenues, the Governor ordered a series of reductions to state agencies' fiscal year 2010 budget expenditures totaling \$499.1 million, or about 9.5 percent. According to the Governor, he is statutorily prohibited from cutting an agency's budget by more than 5 percent until he has cut spending for all agencies by 5 percent. After reaching the 5 percent threshold, the Governor may make additional cuts, but those reductions must be equal across all agencies. The budget cuts reduce fiscal year 2010 funding for education by approximately \$319.6 million while reducing funding for non-education agencies by about \$179.5 million.

Recovery Act and Rainy Day Funds Used to Reduce Impact of Revenue Shortfall

Funding provided by the Recovery Act and “rainy day funds” have helped Mississippi reduce the impact of tax revenue shortfalls in fiscal years 2009 and 2010, but have not stabilized the budget, as evidenced by the continuing budget cuts.¹⁵ The Governor has also proposed using these funds to help reduce the impact of projected revenue shortfalls in fiscal year 2011.

The use of Recovery Act funds must comply with specific program requirements, but also, in some cases, enables states to free up state funds to address their projected budget shortfalls. Mississippi was able to use Recovery Act funds in this manner. The Mississippi legislature approved the fiscal year 2010 Mississippi state budget using more than \$523 million of Recovery Act funds to bring it into balance. The legislature appropriated \$111.5 million and \$19.6 million of State Fiscal Stabilization Fund monies for K-12 education and institutions of higher education (IHE), respectively. This amount, plus \$78.5 million of Recovery Act education stabilization funds appropriated in fiscal year 2009 that were carried forward into fiscal year 2010 freed up \$209.6 million in General Funds that had been planned for K-12 education, IHEs, and community colleges. In addition, a provision of the Recovery Act that increased the Federal Medical Assistance Percentage (FMAP) requirement made another \$313 million available by lowering Mississippi’s share of Medicaid costs, which made a like amount of state funds available for other uses. According to a state budget official, these state funds were redirected to other programs. Likewise, more than \$201 million in State Fiscal Stabilization Fund monies and funds made available as a result of increased FMAP were used to reduce the impact of revenue shortfalls on the fiscal year 2009 budget.

The Governor has proposed using \$383 million of Recovery Act funds to offset revenue shortfalls in the fiscal year 2011 budget that begins July 1, 2010. Table 5 shows the planned use of these funds.

¹⁵The Mississippi rainy day fund, normally called the Working Cash-Stabilization Reserve Fund, is intended, among other uses, to cover any projected deficits that may occur in the general fund at the end of a fiscal year as a result of revenue shortfalls. Miss. Code § 27-103-203.

Table 5: Proposed Use of Recovery Act Funding in Fiscal Year 2011 Budget

State Program	Amount
Hospital and Hospital Schools	\$22,969,561
Institutions of Higher Learning, Agricultural Units	1,681,525
Public Education	128,365,837
Higher Education	74,686,001
Social Welfare	154,171,907
Public Health	1,316,501
Total	\$383,191,332

Source: Mississippi Fiscal Year 2011 Proposed Budget.

Mississippi has also used its rainy day funds to reduce the impact of declining tax revenues. To help close out and balance the fiscal year 2009 budget, the State Fiscal Officer transferred almost \$20 million of rainy day funds to the general fund. Similarly, the legislature transferred \$65.2 million of rainy day funds to the Budget Contingency Fund to help cover a projected shortfall in the 2010 general fund budget.¹⁶ The Governor has also proposed using \$80 million in rainy day funds to cover projected shortfalls in the fiscal year 2011 budget. If the legislature approves the Governor’s proposal, this would leave a balance of some \$80 million in rainy day funds for fiscal year 2012 and 2013, years in which the Governor predicts revenues may continue to decline.

Planning for the End of Recovery Act Funds

The Governor’s assessment is that Mississippi faces significant fiscal challenges beyond fiscal year 2010. He believes that revenue is unlikely to significantly rebound in the years to come and that savings in excess of \$715 million will be necessary to balance the shortfall for fiscal year 2011. According to the Governor, fiscal year 2012 will be even bleaker. Current projections indicate that Mississippi will be faced with a budget gap of more than \$1.2 billion during fiscal year 2012.

In anticipation of continuing revenue shortfalls and the end of stimulus funding, the Governor has proposed, as part of the fiscal year 2011 budget,

¹⁶The Budget Contingency Fund was created in 2001 by the legislature to identify nonrecurring funding—such as funds received from a legal judgment—that the legislature could use in the budget process. The sources of funds deposited in the Budget Contingency Fund can differ from Special Fund transfers to the General Fund that are identified as nonrecurring.

a number of steps to reduce spending and restructure how the state government operates. These steps include:

- Reducing the fiscal year 2011 budget for most state agencies 12 to 17 percent below fiscal year 2010 appropriations;
- Asking all state agencies to find innovative solutions to trim the budget, including reviewing and renegotiating all contracts to reduce their cost by 5 to 10 percent;
- Requesting that the legislature
 - consider major reforms and restructuring of state departments and agencies;
 - allow department and agency heads maximum flexibility in managing their agencies, including allowing lump sum budgeting and streamlining of departments by exempting them from State Personnel Board rules for two years;
 - consider adopting proposals for a strategic statewide plan, reforming performance based budgeting, and creating a state agency from existing entities to provide continuous review and improvements of state government operations
- Reducing administrative costs in the state's educational system by consolidating school districts to reduce short-term administrative costs; and
- Reforming the state's community and junior colleges as well as universities to help reduce administrative costs.

Mississippi Initiated Several Efforts to Ensure Accountability for Recovery Act Funds

To ensure accountability and oversight over federal funds received by Mississippi, OSA conducts, on an annual basis, a "Single Audit" that reports on internal controls over financial reporting and compliance with pertinent laws and regulations. With regard to Recovery Act funding, OSA reported that the Mississippi Department of Employment Security did not record \$23,999,054 of Recovery Act funding for unemployment insurance on its accounting records even though these funds were expended, thereby understating both revenues and expenditures by this amount.¹⁷ In addition, the agency did not report these funds on the Schedule of Expenditures of Federal Awards. As a result of these audit findings, an adjustment was made to properly account for the funds. MDES also agreed to strengthen controls and improve supervisory review of these funds and to move financial management responsibilities for the Unemployment

¹⁷State of Mississippi, Single Audit Report for the Year Ended June 30, 2009.

Insurance Trust Fund to the Office of the Comptroller, Business Management Department.

In addition to normal oversight of federally funded programs, Mississippi has undertaken several efforts to hold state recipients accountable for the Recovery Act funds that they receive. National accounting firms, under the auspices of OSA and DFA, are carrying out two of these efforts. Other more limited efforts are being carried out by other state agencies. In addition, one local government that we visited intends to audit Recovery Act funds received by the city.

OSA has contracted with a certified public accounting and advisory firm, BKD, to conduct monitoring and oversight of Recovery Act funds. BKD is expected to monitor entities such as local governments, not-for-profit organizations, community health centers, and school districts. According to an OSA official, the reviews will not include state agencies, which are being monitored by the DFA.

Overall, OSA expects that its contract with BKD will allow the firm to monitor about 85 to 90 percent of all local entities receiving Recovery Act funds. This includes all school districts, with an emphasis on 43 school districts identified by the Mississippi Department of Education as the districts most at risk, and all community action agencies weatherizing homes. An OSA official explained that each site visit will determine if an entity receiving Recovery Act funds is complying with requirements, such as paying laborers and mechanics the prevailing wage for the area, following published guidelines in reporting on the uses of the funds, and, awarding contracts that include all required terms and conditions. According to officials, OSA's primary objective is to determine if internal control changes are needed and to provide an audited entity with specialized training or individualized technical assistance, if it is needed. However, if BKD's reviews should find fraud, OSA's performance division will refer the issue to its Investigative Division.

Based on a review of selected BKD reports, we noted that some weaknesses were consistent across most of the audited entities. For example, BKD found that internal controls for the preparation and review of recipient reports were either not effective or not in place; supporting documentation for the jobs that grant recipients reported as part of their recipient reports was not available; and jobs were not calculated according to the latest OMB guidance. An OSA official stated that OSA is reviewing BKD's reports and expects to identify trends that can be shared with the Governor's office, DFA, and others.

In addition to OSA's efforts, DFA is monitoring internal controls of state agencies receiving Recovery Act funds to ensure that they are spent responsibly and effectively while maintaining the appropriate controls and reporting mechanisms necessary for accountability and transparency. DFA has contracted with national accounting firm KPMG LLP to assist with monitoring thru June 30, 2011. KPMG and DFA officials stated that if they identify gaps in an agency's internal controls, DFA will work with the agency to correct the deficiencies, or if fraud is identified, DFA will notify OSA.

DFA and KPMG jointly developed a risk assessment tool that summarizes financial risk, internal controls, public interest risks, and operational and delivery risks. Monitoring may be prioritized based on the total scoring of each individual grant and/or high risks in one or more individual areas. Before its contract ends, KPMG will conduct on-site visits to all state agencies receiving Recovery Act funds. After each on-site visit, KPMG will provide a document identifying observations, potential next steps for the agency, and actions that DFA should consider, including the addition of new monitoring procedures.

Some state agencies and cities that we visited also expect to provide oversight of Recovery Act projects. For example, the Mississippi Department of Transportation's internal audit office provides limited oversight of Recovery Act contracts and in the near future, the City of Jackson plans to initiate an audit of Recovery Act funds awarded to the city.

State Comments on This Summary

We provided the Governor of Mississippi with a statement of facts on the Mississippi Appendix on May 3, 2010. The General Counsel to the Governor, who serves as the stimulus coordinator, responded for the Governor on May 6, 2010. The official provided technical suggestions that were incorporated, as appropriate.

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