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RECOVERY ACT

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

GAO

Accountability * Integrity * Reliability

GAO-10-605SP

Appendix XIV: North Carolina

Overview

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

What We Did

Our work in North Carolina included gathering information about eight programs funded under the Recovery Act—3 education programs, the Weatherization Assistance Program, the Transit Capital Assistance Fund, the Dislocated Worker program under the Workforce Investment Act (WIA), and the Clean Water and Drinking Water State Revolving Funds. We also reviewed the use of Recovery Act funds for budget stabilization at the state level and in four local communities, and reviewed the work of the accountability community in monitoring and reporting on Recovery Act funds. For descriptions and requirements of the programs we covered, see appendix XVIII of GAO-10-605SP.

For education, we reviewed North Carolina's monitoring plans for the expenditure of funds under the State Fiscal Stabilization Fund (SFSF), Title I of the Elementary and Secondary Education Act of 1965 (ESEA), as amended, and Part B of the Individuals with Disabilities Education Act (IDEA), as amended, to ensure local educational agencies (LEA) are spending the funds in compliance with applicable laws and regulations. We also reviewed the state's fiscal monitoring activities and visited two local educational agencies--Winston-Salem/Forsyth County Schools and Avery County Schools—to review Recovery Act spending and how LEAs were ensuring appropriate use of the funds. Our review of LEAs included an examination of local compliance with state directives governing procurement with Recovery Act funds.

For the Weatherization Assistance Program in North Carolina, we visited the State Weatherization Office and three community action agencies that are executing the program (Four County Community Services, Laurinburg, N.C.; Martin County Community Action, Williamston, N.C.; and Watauga-Avery-Mitchell-and Yancey Counties (W.A.M.Y.) Community Action Agency, Boone, N.C.). We interviewed officials and reviewed guidance and other documents related to the Weatherization Assistance Program pertaining to monitoring, client eligibility, and program status. We also

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

reviewed 10 client files from each of the three community action agencies to determine completeness of the files and inclusion of required documentation. We also accompanied weatherization staff as they performed initial audits, work in progress, and final inspection of nine homes.

For the transit program, we visited the North Carolina Department of Transportation and AppalCART, a local transportation agency, to follow up on their oversight of the construction of AppalCART's new transit facility.

For the Dislocated Workers program, we visited the North Carolina Department of Commerce to gather information about the state workforce development board's use of Recovery Act funds for the program. We also visited two local Workforce Development Boards, Lumber River and Charlotte-Mecklenburg, to review the use of funds at the local level.

We reviewed the Clean Water and Drinking Water State Revolving Funds (SRF) under the direction of the North Carolina Department of Environment and Natural Resources (DENR), which is distributing these funds; interviewed state officials; and reviewed documents. In addition we interviewed officials at the Charlotte-Muddy Creek/Campbell Creek Project for the Clean Water SRF and at the Perquimans County Winfall Treatment Plant Project for the Drinking Water SRF. The Clean Water project was in an urban area and a Green Reserve Requirement Program project. The Drinking Water project was in a rural community and serves a community in need of drinking water infrastructure improvements.

To learn more about use of Recovery Act funds to stabilize state and local budgets, we visited four local communities--Bladen County, the City of Durham, Halifax County, and the City of Jacksonville. We also interviewed state budget officials to gather information about the state's fiscal condition, including challenges to future economic recovery.

What We Found

- **Education.** North Carolina conducts on-going fiscal monitoring of LEA expenditures under the three Recovery Act programs—SFSF, IDEA Part B, and ESEA Title I—through its existing processes of electronic systems checks, yearly desk audits, and selected on-site monitoring as well as some additional reviews incorporated specifically for SFSF. Although North Carolina has a range of monitoring processes in place, weaknesses in LEA monitoring efforts—allowing use of federal funds on potentially unallowable purchases and failure to follow some procurement regulations, for example—show the need for the state to enhance its monitoring efforts related to the use of Recovery Act funds. We also discussed with North Carolina officials their experiences with meeting education reform assurances for SFSF and implementing the Recovery Act School Improvement Grant (SIG) program. These officials reported that additional funding would help further enhance and expedite data collection efforts related to meeting the assurances and that limited time to disburse funds to LEAs is the primary challenge in implementing the SIG program in the state. Finally, we found that while North Carolina has processes in place to collect and review LEA and institution of higher education (IHE) recipient reporting data, more review by the state is necessary to ensure that the data local entities submit is accurate. For example, in the second round of recipient reporting, the state likely missed under-reporting by one IHE because the state does not collect and review IHEs' supporting documentation.

- **Weatherization.** North Carolina weatherization officials have established several controls to ensure subgrantees' compliance with Recovery Act requirements, but face challenges meeting monitoring goals due to staffing levels. Subgrantees reported that slow allocation and reimbursement of funds by the state agency created challenges for them in executing the program.

- **Transportation.** We found that the North Carolina Department of Transportation and AppalCART, a local transit agency, are experiencing challenges in providing oversight for the first non-urban, Recovery Act-funded transit infrastructure project in the state; and the Recovery Act Buy American and prevailing wage requirements for that project had not been enforced or monitored.

- **Dislocated Workers.** The North Carolina Division of Workforce Development distributed 60 percent of the nearly $44 million in Recovery Act funds it received for the WIA Dislocated Worker program. The state trained 38 percent more dislocated workers between July 1, 2009, and December 30, 2009, than in the corresponding period in the previous year. The local areas we visited—Lumber River and Charlotte/Mecklenburg had over a 300 percent increase in the number of dislocated workers who participated in training compared to the same period in the previous year. State officials told us Recovery Act funds are primarily being used for individual training accounts, which individuals use to purchase training.

- **Clean and Drinking Water State Revolving Funds.** State officials told us they have met all the Recovery Act deadlines with minimal challenges including the February 17, 2010, deadline for projects to be under contract. In the Clean Water SRF Green Reserve Requirement Program, challenges included applicants failing to obtain needed easements prior to loan approval and the subsequent need to find other loan applicants.[2] In the Drinking Water Program, officials noted late or insufficient guidance from the Environmental Protection Agency (EPA) and the Department of Labor (Labor). The state set a maximum loan amount of $3 million per project when distributing Recovery Act funds in order to spread funding across a larger number of assistance recipients and established principal forgiveness to encourage participation.

- **State and Local Budget Stabilization.** The localities we visited used Recovery Act funds to support a variety of initiatives. Although their budgets differed in terms of stability, officials in all four localities told us that the Recovery Act funds they received helped to start, continue, or speed up a variety of programs and projects in their jurisdictions. However, they also told us Recovery Act funds were not enough to affect their government's fiscal stability. Local officials told us they continue to face difficult budget decisions in the wake of declining property and sales tax revenues. State officials told us North Carolina continues to face significant budget challenges, but reported signs of improvement in revenues for the first quarter of 2010.

[2] A project is defined in the Recovery Act as qualified for the green reserve requirement funding if it addresses green infrastructure, water or energy efficiency improvements or other environmentally innovative activities. The Recovery Act requires that a state set aside at least twenty percent of its grant for these types of projects.

North Carolina Has Incorporated Monitoring of LEAs' Use of Recovery Act Funds into Existing Education Monitoring Practices and Protocols

As of April 16, 2010, North Carolina had drawn down about $546 million (47 percent) of its $1.2 billion in SFSF education stabilization funds, $82 million (20 percent) of its $258 million in ESEA Title I funds, and $124 million (38 percent) of its $327 million in IDEA Part B Recovery Act education funds.[3] For these programs, we reviewed North Carolina's monitoring plans to examine the extent to which the state is ensuring that LEAs are spending the funds in compliance with applicable federal laws and regulations. North Carolina Department of Public Instruction (DPI) officials reported that the department conducts ongoing fiscal monitoring of expenditures of federal, state, and local funds for all LEAs through its electronic systems and yearly desk audits. DPI has incorporated its review of Recovery Act funds into these existing processes and conducts additional checks of SFSF funds. Additionally, DPI staff makes on-site fiscal monitoring visits to selected LEAs to review internal controls and the extent to which education expenditures comply with federal laws and regulations. DPI officials said that they have also incorporated a review of Recovery Act funds into protocols staff use during on-site visits. Although North Carolina has a range of monitoring processes in place, weaknesses in LEA monitoring efforts provide an opportunity for the state to enhance its efforts related to the use of Recovery Act funds.

North Carolina Monitors Recovery Act Funds through Existing Electronic Systems and Desk Audits

DPI officials reported that they monitor LEAs' use of federal education funds, including Recovery Act funds, through existing systems and procedures. For example, DPI monitors how LEAs spend funds through reports of all LEA expenditures that are electronically generated by LEA accounting systems each month.[4] LEAs are also required to submit budgets to DPI through the state Budget Utilization and Development (BUD) system, which captures salary data and information on equipment purchases over $5,000. Each month, DPI compares the monthly expenditure data that LEAs submit to the data in BUD. These expenditure data are also run through a series of electronic checks through DPI's Uniform Education Reporting System to determine compliance with certain accounting specifications. Once the expenditure data have passed these checks, they are validated against the state's Uniform Chart of Accounts to determine which expenditures, if any, are coded to unallowable or invalid account codes. DPI officials said that they request

[3] Recovery Act funds must generally be obligated by September 30, 2011, for these programs.

[4] North Carolina requires all LEAs to use a benchmarked accounting system.

corrections from those LEAs that have expenditures assigned to an unallowable or invalid account code.

Additionally, DPI officials told us that it conducts a variety of additional monitoring steps. For example, staff in the ESEA Title I and IDEA Part B program offices conduct routine comparisons of LEA budgets with expenditures in these programs. DPI officials also said that the department conducts audits of all expenditures coded as “certified personnel” (i.e., teachers) through the state’s salary and licensure database to ensure that the employees coded to a specific grant are paid from an allowable fund and that the employees are certified with the appropriate licenses. Finally, DPI officials reported that the department conducts yearly reviews of findings from the independent Single Audits required for all LEAs.[5] DPI officials said, based on the Single Audit findings, DPI would initiate actions against LEAs ranging from a request for an action plan from an LEA to a requirement for the LEA to repay funds.

[5]DPI has one staff person assigned to conduct the yearly review of Single Audit findings for all of the state’s LEAs and charter schools.

North Carolina Conducts Some On-Site Monitoring of Recovery Act Education Funds through Existing Procedures and Conducts Some Additional Monitoring of SFSF Education Stabilization Funds

DPI officials said that they also monitor LEAs' use of federal funds, including Recovery Act funds, through visits to selected LEAs. DPI officials reported that the ESEA Title I program monitoring schedule determines the state's schedule for on-site fiscal monitoring of LEA use and management of all federal funds, including Recovery Act funds.[6] DPI officials reported that they use a risk assessment protocol for selecting LEAs that is primarily based on ESEA Title I program issues, including factors such as number of schools designated as "in improvement"[7] but also includes information from LEA Single Audit findings and other factors.[8] LEAs deemed high risk receive priority for an on-site visit from state ESEA Title I staff and DPI's fiscal monitoring staff, with the goal of visiting all LEAs once every 5 years.[9] DPI officials reported that as of April 2010 it had completed fiscal monitoring in all of the 11 LEAs scheduled for on-site visits for the 2009-2010 year (visits were scheduled to begin in December 2009 and conclude in April 2010).

However, DPI did not modify its existing risk assessment process for selecting LEAs for on-site monitoring after the receipt of Recovery Act education funds. DPI officials told us that they are currently in year 5 of their monitoring cycle, meaning they are primarily visiting LEAs with lower risk ratings. They said that they did not redo the risk assessment

[6]DPI officials said that the department did not have a formal program monitoring process for IDEA Part B.

[7]ESEA requires uniform statewide standards-based assessments and an accountability system to determine whether Title I schools made adequate yearly progress (AYP). Schools "in improvement" have failed to make AYP for at least 2 consecutive years.

[8]Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires states, local governments, and nonprofit organizations expending $500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A Single Audit consists of (1) an audit and opinions on the fair representation 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 federal requirements for certain programs.

[9]DPI officials reported that those LEAs determined to be low risk complete self-monitoring tools and submit their findings to the state. DPI assigns medium risk LEAs to a desk monitor who reviews the single audit findings related to the Title I program. These actions are taken in the same years as on-site visits. For example, as of May 2010, DPI's 2009-2010 monitoring schedule lists 11 LEAs expected to submit self-monitoring tools and six LEAs that would receive desk reviews.

based on the receipt of Recovery Act funds, but decided to stick with their 5-year plan and visit LEAs that have not been visited. A DPI official explained that because North Carolina does not provide funding for fiscal monitoring, staff must work within the Title I schedule in order to use federal funds for fiscal on-site visits. Further, the North Carolina State Auditor recently reported that, for the IDEA program, DPI did not alter its monitoring plans to ensure that subrecipients of Recovery Act funds would be monitored prior to the expiration of the grant.[10] As we have previously reported, a component of strong internal control is the use of risk assessments to identify relevant risks for their possible program impact and establish policies and procedures to manage those risks. We have also reported that Recovery Act programs should be reviewed before significant funding is expended.[11] A risk assessment that incorporates consideration of new risks from Recovery Act funds, would allow DPI to identify those LEAs most at risk for mismanagement of the funds.

While the fiscal monitors' visits are determined by the Title I program, a DPI official reported that the scope of the fiscal reviews conducted by the fiscal monitors goes beyond the scope of the ESEA Title I office's protocol, which focuses on programmatic aspects of ESEA Title I. DPI's fiscal monitoring checklist indicates that DPI staff review the following to ensure compliance with state and federal requirements:

- documentation certifying time and effort for employees paid with federal funds,
- maintenance of records for equipment purchased with federal funds, and
- staff knowledge about written policies and procedures to ensure proper internal controls are in place. A DPI official said that monitors interview key LEA staff to ascertain their familiarity with these policies.

After conducting fiscal monitoring visits, DPI issues a written report to LEAs with observations and any recommendations for further action. DPI officials reported that their ability to conduct the on-site fiscal monitoring

[10]State of North Carolina Office of the State Auditor. *Department of Public Instruction: Statewide Federal Compliance Audit Procedures for the Year Ended June 30, 2009 (North Carolina: Office of the State Auditor)*, 8-9.

[11]GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: Apr. 23, 2009).

visits to LEAs had been limited because DPI's fiscal monitoring office had only one staff member assigned to do on-site monitoring until it hired a second person in February 2010.

As we reported in December 2009, DPI developed a plan to monitor SFSF education stabilization funds.[12] DPI's written monitoring plan for SFSF funds incorporates all of the state's existing electronic monitoring and desk audits conducted for all LEAs. In addition, DPI officials said that in October 2009 they began to conduct monthly comparisons of LEA budgets and monthly SFSF expenditures for approximately 30 LEAs. Specifically, officials said that each month DPI selects five LEAs based on the amount of funding, five LEAs based on risk factors such as single audit findings, and 20 LEAs at random. Additionally, DPI staff conducts on-site monitoring of SFSF funds during their visits to monitor the use of other federal funds.

LEA Weaknesses in Monitoring Use of Federal Education Funds Highlight Opportunities for North Carolina to Enhance Its Monitoring Efforts

We visited two LEAs—Winston-Salem/Forsyth County Schools (WSFCS) and Avery County Schools (ACS)—to review Recovery Act spending and how the LEAs were ensuring appropriate use of the funds. Specifically, we reviewed Recovery Act expenditures for SFSF, ESEA Title I, and IDEA Part B and the supporting documentation, including contracts, associated with these expenditures.[13] We chose WSFCS because of its sizable allocation of Recovery Act funds and multiple Single Audit findings regarding its use of federal funds. We chose Avery County Schools because it had received a monitoring visit from DPI. A comprehensive account of our findings in both LEAs is outlined in a letter to DPI.[14] Our findings in these LEAs highlight some opportunities for North Carolina to enhance its on-site monitoring protocol to address issues arising from LEA use of Recovery Act funds. Also, our findings indicate that North Carolina's monitoring efforts could benefit from reassessing LEA risks in light of additional risks resulting from Recovery Act funds. We have discussed our findings with DPI officials, and they told us they are taking actions to enhance their oversight of LEAs based on what we found.

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

[13]We did not review expenditures for salaries using SFSF in our visit to ACS.

[14]For each of the LEAs we visited, we referred a full account of our findings in a letter addressed to the State Superintendent of Public Instruction, with copies of the letter to the LEA superintendents and the U.S. Department of Education.

In February 2010, we visited WSFCS, the fifth-largest LEA in North Carolina and the recipient of the fifth largest Recovery Act education award in the state. WSFCS received about $36 million in SFSF, ESEA Title I, and IDEA Part B Recovery Act funds. The district used these funds for salaries, equipment purchases, professional development for teachers, a summer youth program for students in ESEA Title I schools, and other purposes. According to DPI officials, WSFCS had not received an on-site fiscal monitoring visit since 2006—the first year of the current 5-year monitoring cycle. In our review of documentation supporting WSFCS's Recovery Act expenditures, we found that WSFCS expended $38,400 of Recovery Act and non-Recovery Act ESEA Title I funds[15] for a 2009 summer program and that some of those funds may have been used to pay for entertainment expenses, a possibly unallowable use of the funds.[16] The program, operated by the Housing Authority of Winston-Salem, was designed to assist students in ESEA Title I schools retain educational gains over the summer months. Officials affiliated with the summer program told us that students spent approximately 3 hours, 4 days a week, on educational activities and one 8-hour day per week on academic field trips that included trips to science centers, planetariums, and colleges. However, in our review of documents held by the Housing Authority of Winston-Salem, we found evidence that the program also used ESEA Title I, Part A funds to pay for non-academic field trip-related expenses, including tickets for movies, a water park, fast food, and other potentially unallowable expenses. For example, field trips for students included a trip to the movie theatre to see Ice Age and Terminator for a total of $405.50, and a trip to a water park for $961.23 (including food and locker rentals). WSFCS officials told us that, to their knowledge, district staff did not monitor the summer program but said that they related their expectations for how funds were to be used to the housing authority officials implementing the program. After learning about the potentially unallowable expenses through our visit, WSFCS officials told us that they had submitted a request to the state to reprogram the $38,400 used from their ESEA Title I accounts (Recovery Act and non-Recovery Act) to their local fund. A DPI official said that reprogramming the funds would be one

[15]Of those funds, $6,400 were Recovery Act ESEA Title I funds and $32,000 were regular ESEA Title I funds.

[16]*See* 34 C.F.R. § 80.22(b), citing OMB Circular No. A-87. OMB Circular No. A-87 states that the costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

aspect of a solution the state would review, but that they would also consider the extent to which an LEA has implemented controls to prevent similar situations from occurring in the future.

We also visited Avery County Schools (ACS) in February 2010; it was one of two LEAs that had received a 2009-2010 on-site fiscal monitoring visit from DPI as of December 2009. ACS received about $1.5 million in SFSF, ESEA Title I, and IDEA Part B Recovery Act funds. ACS officials reported that the district spent the funds for salaries, purchases of equipment, and professional development for teachers. For the district's small purchases of equipment, we found, and ACS officials agreed that the district did not conduct price or cost analyses for some purchases, document that they had obtained multiple bids or price quotes, or document reasons for entering into noncompetitive contracts. ACS officials said that they are using their district's existing policies and procedures for purchases using Recovery Act funds, but also acknowledged that, for at least one of their contracts, they were out of compliance with the district's policy regarding the requirement to obtain multiple bids for expenditures over $10,000. ACS officials said that the district's expenditure requirement of $10,000 exceeded the state's requirement and that after our visit, the district revised the local policy so that it is consistent with the state requirement. DPI's fiscal monitor reviewed two ACS Recovery Act purchases totaling $104,738.98, and reported that the invoices included sufficient detail to show that services were rendered. The report also noted that the procurement official did not have a clear understanding of written procurement requirements.

Our initial observation regarding procurement in the two LEAs was that the districts did not maintain documentation showing competition, supporting decisions on competitive and non-competitive contracts, or having conducted price or cost analyses. A senior finance administrator with DPI said that in response to our initial observations, the fiscal on-site monitoring visits would be expanded to include a more robust review of LEA purchases. Specifically, according to a DPI official responsible for LEA monitoring, DPI's fiscal monitors have changed their review to interview LEA finance staff regarding their written policies for procurement and ask these staff to guide them through the LEA's procedures (written and unwritten) on procurement. This official said that the interviews would allow the monitors to assess internal controls on procurement and ensure that the LEAs are following their own procurement policies and procedures. This DPI official also reported that monitors request documentation of multiple bids or price quotes for Recovery Act purchases to ensure compliance with new state requirements for Recovery Act purchases. However, DPI officials reported that the department does not review whether LEAs have documentation required by the state to support the type of procurement or whether or not a price or cost analyses was conducted.

North Carolina's DPI Expands LEA Reviews to Ensure Compliance with State Procurement Directive for Recovery Act Purchases

In May 2009, according to state officials, North Carolina's Office of Economic Recovery and Investment (OERI) issued a directive regarding the use of Recovery Act funds for procurements of goods and services. According to state officials, this directive states that recipients of Recovery Act funds are required to advertise contracts for $5,000 or more and obtain multiple bids or price quotes for Recovery Act procurements, among other things.[17] At the time of our LEA visits, WSFCS and ACS reported that they were not yet in compliance with OERI's directive. DPI officials told us that a review of LEA compliance with the state procurement directive was not, at that time, a part of their fiscal monitoring protocol. However, DPI has subsequently added a review of LEA compliance with some aspects of the OERI directive to its on-site visits.

OERI officials reported that in response to our observations regarding LEA compliance, they began to increase communication about the procurement directive among the state's LEAs through e-mail notices and announcements in statewide meetings with administrators. For example, in April 2010, OERI sent a letter to LEA superintendents and finance officers reminding them of the state directives for procurements with Recovery Act funds and the role DPI would take in ensuring compliance. Also, in response to our observations, OERI issued another management directive in April 2010 directing North Carolina's state agencies to ensure compliance with Recovery Act procurement requirements. According to state officials, this management directive requires state agencies to design an audit program for Recovery Act projects and contracts that includes regularly scheduled on-site visits and desk reviews. Further, in this audit program, state agencies are to check subrecipients' compliance with OERI's May 2009 directives. According to state officials, OERI's directive required an initial report on April 30, 2010, of state agencies' plans and a report every 30 days thereafter certifying that subrecipients used a competitive process for Recovery Act purchases. OERI also scheduled

[17]OERI Directive 3 and 3(b) (May 2009 and January 2010) "Contract Provisions for the Procurement of Goods, Services, and Construction Projects Including Design Services and Internal Procurement Directives."

several technical assistance seminars around the state to provide guidance on complying with its directives. A DPI official said that the department plans to ask LEAs to self-report compliance with OERI's requirements and fiscal monitors will check the accuracy of these reports during on-site monitoring visits. However, DPI officials reported that OERI's additional monitoring requirements pose an administrative challenge to the department given its limited monitoring staff.

Some Efforts in North Carolina to Fully Meet SFSF Education Reform Assurances Depend on Additional Federal Funding

State officials said that some efforts in North Carolina to meet SFSF education reform assurances were under way prior to the state receiving Recovery Act funds. Additionally, these officials reported to us that most of the indicators and descriptors related to these reform assurances were also under way in the state prior to receiving funds.[18] However, state officials reported to us that Recovery Act funds have helped to expedite ongoing efforts and additional federal funding would help further expand their ongoing efforts, including efforts to collect data linked to the assurances. When we spoke with North Carolina officials in March 2010, they described a need for additional federal funding to expand efforts in teacher quality and to create state systems to collect teacher and principal performance data and track high school student enrollment in the state's institutions of higher education as required by Education. North Carolina's 2009 equity plan for highly qualified teachers states that North Carolina has a shortage of highly qualified teachers who are able to teach special education students. The plan attributes the shortage, in part, to a determination by Education that the test North Carolina used to qualify teachers was not sufficient for demonstrating mastery at the secondary level. State officials described wanting to use Race to the Top funds to expedite the statewide rollout of a pilot program to address this shortage.[19] Without additional federal funding, these officials said that while they would not dismantle the program, the statewide rollout will be much slower. State officials reported that they were also hoping to use Race to

[18]The Recovery Act requires states receiving funds under the SFSF program to provide assurances in four key areas of education reform: (a) achieving equity in teacher distribution, (b) improving collection and use of data, (c) standards and assessments, and (d) supporting struggling schools. For each area of reform, the act prescribes specific actions for states to implement. Education established specific data and information collection and public reporting requirements (the assurance indicators and descriptors) that states receiving SFSF funds must meet with respect to these assurances.

[19]North Carolina was 1 of 16 state finalists for Education's competitive Race to the Top program; however, the state did not receive an award in the first round of funding.

the Top funds to implement a previously piloted, Web-based tracking system to collect performance data on teachers and principals. North Carolina's plan for this effort states that the system would cost North Carolina about $6 million over 4 years. State officials said that without the additional federal funding, they would continue to meet this education reform goal but with a more limited system created by a state agency that would cost $54,700.

North Carolina submitted an application in December 2009 to Education for a Statewide Longitudinal Data Systems Grant award to fund development of a statewide longitudinal data system that links high school data with data from institutions of higher education to allow the state to track the number of students who enroll in state institutions of higher education. This system, estimated to cost $536,000, would build upon North Carolina's current pre-K-12 state longitudinal data system, which it created using a federal grant. State officials reported that they intend to use the funds to accelerate the establishment of the new portion of the system and thereby create a more streamlined system that allows the various educational sectors to share data and allows the integration of data from independent colleges. If North Carolina does not receive a Statewide Longitudinal Data Systems Grant award, state officials said that they will be unable to bring independent colleges into a unified system.[20]

Limited Time to Disburse Funds Cited as Potential Challenge to Implementation of ESEA Title I School Improvement Grants

Education approved North Carolina's Recovery Act ESEA Title I School Improvement Grant (SIG) application on April 6, 2010. States are expected to disburse the majority of SIG funds to LEAs for the 2010-2011 school year. DPI officials said that the limited amount of time to get the funds out to LEAs was the most significant challenge in implementing the grant. North Carolina's SIG application lists June 30 as the deadline for final approval of any LEAs receiving funds. DPI officials said that they distributed a draft LEA application and held webinars with LEAs and school administrators to mitigate the effect of the short period for making awards to LEAs. DPI officials reported that in order to ensure that LEAs and schools receiving SIG funds have sufficient technical assistance from the state they are reserving the permitted 5 percent of their SIG award for administration, evaluation, and monitoring. DPI officials said that these additional administrative funds reserved from their SIG grant are minimal

[20]In May 2010, Education awarded Statewide Longitudinal Data Systems Grant awards funded under the Recovery Act to 20 states. North Carolina did not receive an award.

but would pay for the development of a teacher leadership program to train teacher-coaches. The teacher leadership program will provide professional development to teachers around the state who will serve as local resources to assist schools in implementing their intervention models.[21] DPI officials said that by investing in professional development they will create a sustainable cadre of coaches to assist schools after Recovery Act funds end.

North Carolina Uses Most of its SFSF Government Services Funds for State Salaries

North Carolina received about $258 million in SFSF government services funds. Table 1 provides a description of the state's spending of these funds for fiscal years 2009 through 2012. North Carolina's largest single use of the funds, about $150 million in fiscal year 2009, was payroll in the state's Department of Correction. In total, salaries for existing and new staff comprised about $250 million (97 percent) of North Carolina's total government services funds allocation. About $5 million of the funds will pay for a new budget system for the state and about $2.3 million was or is scheduled to be spent on staff and other efforts related to monitoring. North Carolina's Office of State Budget and Management (OSBM) administers SFSF government services funds.

[21] In order to receive SIG funding, an LEA must identify its persistently lowest-achieving schools and must show how it will use the funding to implement one of four intervention models for each of the schools. Generally, these are: (1) replace the principal, rehire no more than 50 percent of the staff, and adopt a new governance structure; (2) convert or close and reopen the school as a charter school or under an education management organization; (3) close the school and re-enroll students in other schools in the LEA that are higher achieving; or (4) implement several strategies, such as replacing the principal and implementing a rigorous staff evaluation and development system.

Table 1. North Carolina's Uses of SFSF Government Services Funds for Fiscal Years 2009 through 2012

	Funding amount	Fiscal year 2009	Fiscal year 2010	Fiscal year 2011	Fiscal year 2012
Office of State Budget and Management					
Information technology	$428,570		X	X	X
Payroll for 4 new internal auditors	$1,261,489		X	X	X
New budget system	$5,170,453		X	X	X
OSMB Total	$6,860,512				
Office of Economic Recovery and Investment					
Establishment of office (salaries and benefits)	$1,968,136		X	X	
Monitoring and compliance	$565,000		X	X	
Other	$622,400		X	X	
OERI Total	$2,389,246[a]				
Department of Administration					
Payroll for three new contract compliance monitors	$444,600		X	X	X
Department of Correction					
Payroll	$176,574,356	X	X	X	
Administrative Office of the Courts					
Payroll	$66,585,556	X			
North Carolina Virtual Public School					
Payroll	$3,877,840		X		
Total SFSF government services funds	**$256,732,110**[b]				

Source: North Carolina Office of State Budget and Management.

[a]The total amount incorporates a reduction based on North Carolina's reservation of 0.3 percent of Recovery Act grants in the amount of $766,290 for fiscal years 2009 and 2010.

[b]According to an OSBM official, the $1.79 million remaining in North Carolina's total government services funds award is reflected in North Carolina's amended SFSF application and allocated for public safety. At the time of our review, this official noted that the funds had not yet been included in the budget.

OSBM officials reported that the administration of federal funds is a new responsibility for the agency. These officials reported that in order to ensure proper oversight of the state's use of government services funds, they reviewed the plans of other states, worked with OSBM internal auditors to design a monitoring protocol, and used government services funds to hire four temporary internal auditors. OSBM officials also said that the agency sent information to state agencies receiving SFSF government services funds to ensure that these agencies, as subrecipients, were aware of their responsibilities regarding the uses of the funds.

OSBM's written monitoring protocol describes a three-pronged process for its ongoing monitoring of government services funds. According to this plan, OSBM budget analysts will conduct monthly reviews of state agencies' budget and expenditure reports to verify that the budget and expenditures are recorded using the correct Recovery Act expenditure code(s), charged to the correct or authorized accounts, and recorded in the correct amounts. OSBM also reviews agencies' data for recipient reporting to ensure that the reported expenditures match the approved budget allocation and draw down amounts. Finally, OSBM's internal audit staff conduct periodic reviews of agencies' uses of government services funds. To ensure accurate accounting for recipient reports, five audits are scheduled to generally cover fiscal years 2009 through 2012, with the first audit having occurred in March 2010. OSBM's protocol includes selecting a sample of SFSF government services funds transactions to test for compliance with state and SFSF requirements and cash management policies and procedures, as well as testing the accuracy of performance data for a sample of subrecipients.

North Carolina Faces Challenges in Monitoring Subgrantees' Execution of the Weatherization Assistance Program, Despite Established Procedures

The Recovery Act appropriated $5 billion for the Weatherization Assistance Program, which the U.S. Department of Energy (DOE) is distributing to each of the states, the District of Columbia, and seven territories and Indian tribes, to be spent by March 31, 2012. North Carolina's Department of Commerce (NCDOC) is the prime recipient for the federal Weatherization Assistance Program's Recovery Act funding. The goal of the program is to improve energy efficiency, increase household safety, and educate the public about maintaining energy efficiency. The program serves low-income individuals, with a focus on reaching the elderly, individuals with disabilities, families with children, and high energy users. Weatherization assistance is available for single-family homes, apartments, condominiums, and mobile homes. An applicant for weatherization assistance is not required to own the home for which the assistance is sought, but the applicant, if a renter, must have the landlord's permission for the weatherization work to be done.

NCDOC is responsible for developing the state's Weatherization assistance plan—currently covering April 1, 2009 through March 31, 2012—and for monitoring and overseeing its implementation. NCDOC provides funding to 28 subgrantees—22 community action agencies, 3 nonprofit organizations, and 3 local government units—that administer the program locally and provide weatherization services to all 100 North Carolina counties. As of March 31, 2010, the DOE had provided North Carolina 50 percent—approximately $66 million—of its 3-year Weatherization

Assistance Program Recovery Act funding.[22] NCDOC retained $13 million of these funds for program administration, training, and technical assistance for subgrantees, and awarded the remaining $53 million to the 28 local subgrantees for weatherizing over 22,000 homes by March 31, 2012. Each subgrantee is required to submit an annual application that includes a description of the scope of the weatherization work it will perform, including the number of homes to be weatherized; an implementation schedule; and a detailed budget. In order to determine the number of homes to weatherize, North Carolina's Recovery Office established the average weatherization expenditure at $4,000 per home, significantly less than the $6,500 federal maximum per home average limit for weatherization. As of March 31, 2010, the subgrantees reported completing 1,715 units—about seven percent of the total homes identified for weatherization in the DOE-approved state plan. According to the NCDOC Weatherization Program Manager,[23] the agency recently received approval from the governor's office to use $6,000 as the average per home limit for weatherization in North Carolina and plan to amend the state's weatherization assistance plan to reflect this change.

Subgrantees can use the weatherization funds for a variety of purposes, including educating clients in safety and energy efficiency; professionally evaluating homes for safety and energy efficiency; cleaning, evaluating and tuning heating and air conditioning systems; insulating attics, floors, and walls; making minor home repairs for health and safety reasons; installing smoke and carbon monoxide detectors; and identifying average energy usage and general heat waste. To identify weatherization measures a home needs, during the initial home assessment, energy auditors conduct an inspection, which generally includes a blower door test that reveals where air is escaping from a home. The final inspector performs a post weatherization test to determine the effectiveness of the measures taken.

[22] After meeting reporting, oversight, and accountability milestones required by DOE, North Carolina will receive more than $65 million in additional funding, for a total of more than $131 million, to weatherize the number of homes in the DOE approved State Plan.

[23] This person manages day-to-day activities of the section including supervision of staff; coordination of scheduling of program and fiscal monitoring activities and ensuring that summaries of monitoring activities are shared with subgrantees; coordination of training and technical assistance activities for prime recipient staff and subgrantees; preparation of the State Plan and reports to state and federal agencies; promotion of the program and coordination with other low-income energy programs; and ensuring that the program operates in compliance with state and federal rules and regulations.

Figure 1 shows exterior and interior views of a blower door installed for home testing.

Figure 1 : Blower Door Set up

Outside view of blower door set-up

Inside view of blower door set-up

Source: GAO.

On the left is a photo of the outside view of the blower door set-up and the photo on the right is of an inside view of the blower set-up. A basic blower-door system includes three components: a calibrated fan, a door-panel system, and a device to measure fan flow and building pressure. The blower-door fan is temporarily sealed into an exterior doorway using the door-panel system. The fan is used to blow air into or out of the building, which creates a small pressure difference between inside and outside. This pressure difference forces air through all holes and penetrations in the building enclosure. The tighter the building (e.g. fewer holes), the less air is needed from the blower door fan to create a change in building pressure.

North Carolina Weatherization Officials Monitor Subgrantees' Use of Recovery Act Funds but Face Challenges Due to Staffing Levels

NCDOC officials have established several controls to ensure subgrantees' compliance with Recovery Act requirements. These controls include training and certification requirements for subgrantees, NCDOC monitoring visits that include reviews of subgrantees' client files, and periodic reports subgrantees are to submit to NCDOC via a comprehensive, Web-based system called Accountable Results for Community Action (AR4CA). NCDOC officials also do risk assessments of subgrantees and require subgrantees to obtain NCDOC approval of contractors who perform basic weatherization work, such as caulking, duct sealing, and installing insulation. In addition, subgrantees that weatherize homes using their own employees or contractors must have their work inspected by an inspector who was not involved in performing the work. Further, while the DOE requires comprehensive monitoring of 5 percent of the units completed during the year, NCDOC plans to monitor 20 percent. Based on NCDOC's current projections, 15,350 units will be completed during fiscal year 2010, meaning that NCDOC will have to monitor about 768 units to be compliant with the federal DOE requirement and 3,070 units to reach its 20 percent goal. However, as of March 31, 2010, the NCDOC Weatherization Program Manager said his office had only monitored 11 units weatherized by subgrantees under the Recovery Act. As of March 31, 2010, NCDOC had four staff members who are responsible for subgrantee monitoring as well as subgrantee application and budget reviews, and for conducting training and technical assistance appropriate to the subgrantees' level of performance. To meet the monitoring requirement, NCDOC officials stated four additional monitoring staff members are needed and, at the time of our visit, were interviewing to hire those individuals.

Subgrantees Also Report Challenges

Subgrantees reported that NCDOC's slow funds allocation and reimbursement created[24] challenges for them and could negatively impact their future allocations. Officials at one subgrantee we visited, reported that prior to receiving Recovery Act funds the subgrantee had to use its own funds to acquire two vehicles needed for expanded weatherization work. Officials at another subgrantee reported the subgrantee had to secure a $500,000 line of credit, which it used twice in February 2010 due to slow reimbursement by the state. The director of this subgrantee said it

[24]Repayment for funds expended by subgrantees to weatherize homes, including paying contractors for work performed. Advance payments provide funds to subgrantees to cover cost of anticipated homes to be weatherized.

was able to secure the credit line using the subgrantee's "good name" in the community as collateral and pointed out that it was not clear how subgrantees without this resource would pay their expenses while waiting for state reimbursement. In addition, subgrantees that do not meet production goals may receive smaller allocations in the future.[25] NCDOC officials said that in addition to receiving smaller allocations, such subgrantees may be barred from receiving advance payments, which could equal up to one-half of total contract costs, and may be put in reimbursement status whereby they would only receive funds after they had completed weatherizing homes. NCDOC officials said that subgrantees not meeting production goals may also face additional reporting requirements, such as more frequent progress reports.

Requirements for Transit Infrastucture Project Were Not Monitored or Enforced

The Federal Transit Administration (FTA) has apportioned $33.1 million in Transit Capital Assistance Funds for nonurbanized areas in North Carolina.[26] The North Carolina Department of Transportation (NCDOT) is the primary recipient of those funds and is responsible for allocating and distributing those funds to individual transit agencies in nonurbanized areas. NCDOT is using about $9.1 million of those dollars to fund 8 transit infrastructure construction projects. Only one of those projects—the AppalCART transit facility—had begun the construction process as of April 1, 2010. This project, which we previously reported on in December 2009,[27] is a new office and maintenance facility for AppalCART, the transportation authority serving all of Watauga County in North Carolina. AppalCART was able to quickly utilize these funds because it had already completed a prequalification process for eligible bidders and it had designed the project before the Recovery Act went into effect on February 17, 2009. AppalCART officials told us that, in anticipation of receiving Recovery Act grant funds, AppalCART advertised for bids on February 18,

[25]According to the approved state plan, this would allow the state to give additional allocations to other subgrantees in order to meet the state's total number of weatherized units.

[26]The FTA apportioned Recovery Act funds to states for nonurbanized areas under the Transit Capital Assistance Program's formula grant programs using the program's existing formula. Transit Capital Assistance Program funds may be used for such activities as vehicle replacements, facilities renovation or construction, preventive maintenance, and paratransit services. Nonurbanized areas are areas encompassing a population of fewer than 50,000 people.

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

2009, opened bids on March 12, 2009, signed a contract with the contractor on May 29, 2009, and began work in June of 2009.[28]

In our review of the AppalCART project, we found that Recovery Act and federal-aid contracting requirements were included in the bid and contract documents, but not all of the requirements were being enforced or monitored. NCDOT officials told us they assisted AppalCART in the bidding and award process and provided contract provisions to make sure federal and Recovery Act requirements were included in the bid documents and contract. Our review showed, and NCDOT officials confirmed, that the Buy American and minimum prevailing wage provisions required by the Recovery Act were included in the contract, and NCDOT officials told us that while the bid documents did not include specific Recovery Act requirements—because they were created before the FTA published Recovery Act guidance in the Federal Register—they did include the customary FTA procurement requirements for Buy America and prevailing wages.[29] However, we found, and AppalCART officials confirmed, that the Buy America requirements were not being enforced. Specifically, neither AppalCART nor NCDOT had made any checks to ensure that the steel being used on the project met the Buy America requirements. In addition, neither had checked to ensure that workers were being paid at least the minimum prevailing wages, as required. Specifically we found, and NCDOT and AppalCART officials confirmed, the following:

- Prior to our review, NCDOT and AppalCART had not been checking to see if the steel being used on the project met the Buy America requirements included in the contract. Steel certifications sent to us by AppalCART for the project indicated, and the structural steel vendor verified, that some of the steel erected on the site was made in Canada.

[28] A grant agreement between NCDOT and AppalCART for Recovery Act funding was executed on January 26, 2010.

[29] The Buy American provision of the Recovery Act prohibits, with certain exceptions, the use of Recovery Act funds “for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States.” Recovery Act, div. A, § 1605. 123 Stat. 303. DOT has stated that, since Title XII of the Recovery Act provides that funds made available under that act for transit projects are subject to applicable 49 U.S.C. chapter 53 requirements, it is enforcing these provisions in accordance with its existing Buy America requirements, as contained in 49 U.S.C. chapter 53 and FTA's implementing regulation at 49 C.F.R. Part 661.

- Even though an official for the project's contractor had certified in its bid documents that the firm would meet the Buy America requirements, an official of the contractor's structural steel vendor stated the steel vendor was not aware of the Buy America requirements, and the firm had used some steel for the project the origin of which was not tracked. As a result, the official of the steel vendor stated he could not verify for some of the steel used, whether or not it was made in the United States.

- The Recovery Act also requires, and the contract called for, the contractor's and subcontractor's workers to be paid at least prevailing wages as determined by the Secretary of Labor in accordance with subchapter IV of chapter 31 of title 40, United States Code. However, AppalCART officials had not seen the minimum wage rates until after our inquiry and both NCDOT and AppalCART had not, prior to our review, made inquiries to the contractor, subcontractors, or workers if they were being paid in accordance with the act.

- NCDOT had not developed written guidance regarding how the nonurbanized area transit agencies should provide oversight of the Buy America or prevailing wage requirements for the projects.[30]

NCDOT officials told us since our review that they developed and provided to AppalCART a "materials received report" for the transit agency to use in documenting current and future payment requests, to show that the materials meet the Buy America requirements. In addition, since our review, they have utilized an audit program developed by NCDOT's External Audit Branch to examine AppalCART's compliance with Recovery Act requirements which identified several areas of needed monitoring and oversight improvement including prevailing wage verification, Buy America verification of materials, change order approval process, and inclusion of Recovery Act special provisions in all subcontractor agreements. FTA officials told us that they rely on contractors and FTA grantees to perform due diligence in complying with the Buy America requirement, and while the contractor is responsible for certifying compliance, or non-compliance, the grantee is responsible for assessing the validity of the certification, and that FTA can investigate

[30]NCDOT officials told us they did not already have written guidance in place for non-Recovery Act federally funded transit infrastructure construction projects, because it had not used federal funds for these types of projects in at least 20 years.

compliance when petitioned. FTA officials told us they also conduct some oversight reviews to assess the practices of their grantees.

NCDOT and AppalCART officials had plans to provide oversight of the project, but both agencies had challenges providing that oversight. As we reported in December 2009, NCDOT officials told us that their oversight for their nonurbanized area projects would generally include periodic site visits, reviewing and approving key steps in the contracting process, review of contract documentation, progress reviews, assistance on project management, and assistance on Recovery Act reporting requirements. NCDOT officials told us that despite a shortage of staff, they had plans to provide oversight of the project through an existing services agreement for engineering services with a private firm. However, NCDOT was unable to move forward with this service agreement due to a North Carolina Office of Economic Recovery and Investment (OERI) management directive issued in January 2010, which clarified that state agencies are prohibited from utilizing existing agreements of this type for Recovery Act work because they want to ensure that the goods and services are competitively procured, and that the existing agreements met the Recovery Act requirements. NCDOT officials told us OERI gave them permission to use an existing limited services contract, 2 months later, in March 2010. As of May 17, 2010, the NCDOT was still developing the scope of the engineering services agreement with the private firm, based on the audit tool they have developed for Recovery Act projects, but expected to give the firm a notice to proceed as early as May 28, 2010. AppalCART also faced challenges providing oversight. For example, an AppalCART official told us that its project manager had left December 31, 2009, leaving them without a project manager until they recruited a new project manager, who began May 1, 2010.

NCDOT and AppalCART have had additional challenges resulting in AppalCART not being reimbursed for the work completed to date and incurring unplanned interest costs as a result. A NCDOT official told us that it informed AppalCART, prior to AppalCART putting the project out for bids that before AppalCART could get reimbursed for eligible project costs, FTA had to award the grant to NCDOT, and then a grant agreement between NCDOT and AppalCART had to be in place. NCDOT officials told us that after the FTA awarded the grant on August 24, 2009, it took them until January 26, 2010, to write the agreement and get it executed, because the State had to incorporate the Recovery Act requirements into their agreement and there was an error in the period of performance which needed to be corrected. Once executed, AppalCART should have been able to begin requesting reimbursement. However, in our meeting with

NCDOT officials on April 1, 2010, they discovered the period of performance error still existed in the AppalCART grant agreement and an amendment would have to be made before NCDOT could reimburse AppalCART for the period from June 2009 through July 31, 2009. AppalCART officials told us they had been working with NCDOT to provide invoices for reimbursement in a format that NCDOT would accept, but are unclear if invoices submitted to date are acceptable yet. NCDOT officials told us that not all of the processes for funds reimbursement and project management were in place when they were needed because they had not constructed a nonurbanized area, federally funded transit infrastructure project in over 20 years, which required them to develop some new processes. While NCDOT was developing new processes, AppalCART proceeded with construction, providing jobs, and paying the contractor over $712,000. As a result of not being reimbursed, AppalCART needed to acquire a bank line of credit to pay the contractor for a portion of completed work. As of March 2010, AppalCART officials reported paying almost $2,000 a month in loan interest costs.

North Carolina Has Made Progress in Using Recovery Act Funds to Increase Training to Dislocated Workers

North Carolina was allotted about $44.4 million in Workforce Investment Act (WIA) Dislocated Worker Program funds under the Recovery Act. According to state officials, local workforce investment boards have used Recovery Act funds to significantly increase the number of dislocated workers enrolled in training. While local areas primarily relied on the same type of training used under WIA, one of the two local areas we visited, Charlotte-Mecklenburg, used the new flexibility allowed under the Recovery Act to contract with institutions of higher education for some group training.

North Carolina received WIA dislocated worker funds under the Recovery Act through the same statutory formula used to distribute regular WIA Dislocated Worker Program funds. The Division of Workforce Development in North Carolina's Department of Commerce administers this program and distributed 60 percent of its allotment to 24 local workforce boards. The state set aside the remaining funds for rapid response activities to address layoffs and plant closings, and other statewide activities. As of March 31, 2010, the state had drawn down at least 37 percent ($16.4 million) of its Recovery Act funds.[31] In the two local areas we visited, Lumber River has fully committed—expended or obligated—its Recovery Act allocation for the WIA Dislocated Worker Program and Charlotte-Mecklenburg has committed 93 percent of its allocation (see table 2).[32]

Table 2. Selected Local Workforce Investment Areas Commitment of Recovery Act WIA Dislocated Worker Program Funds as of January 31, 2010

Workforce Investment Area	Total allocation	Expended	Obligated	Percent obligated and expended
Charlotte-Mecklenburg	$1,681,622	$773,992	$794,858	93
Lumber River	$ 862,402	$281,187	$581,215	100

Source: GAO analysis of Charlotte-Mecklenburg Workforce Development Board and Lumber River Workforce Development Board data.

With the combination of Recovery Act funds and increased demand for services, the number of dislocated workers trained in the state between July 1, 2009, and December 30, 2009, was 38 percent higher than in the corresponding period in the previous year, according to our state survey. The state reported that from the date it began using Recovery Act funds through January 31, 2010, about 10,568 dislocated workers in North Carolina received training through Recovery Act or regular WIA dislocated worker funds. As shown in Table 3, both of the local workforce areas we visited had over a 300 percent increase in the number of dislocated workers who participated in training compared to participation during the same period in the prior year. Despite these significant increases in participants receiving training, Lumber River officials told us that some dislocated workers in this largely rural area were not interested in training

[31]These are cash drawdowns from the U.S. Department of Health and Human Services' Payment Management System. This system disburses grant funds to over 41 federal agencies, bureaus, and grant awarding offices, including the Department of Labor. Under the procedures for using these funds, funds are to be drawn down no more than 3 days in advance of paying bills. According to Labor, drawdown data for March 2010 may be significantly understated as a result of complications with the transition to a new accounting system. Labor is taking steps to correct these issues and expects to release accurate data by the end of May 2010.

[32]Expenditures represent actual cash disbursements or outlays, while obligations represent financial commitments made by states or local areas for which payment has not yet been made. For example, an obligation would be incurred when a state or local area enters into a commitment or contract with a service provider for training, but training has not yet been completed or the service provider has not yet been paid.

because they would prefer a job instead. To encourage participation in training, Lumber River promoted short-term courses such as computer literacy courses and occupational classes such as welding. However, these efforts were not fully successful in recruiting those individuals mainly interested in jobs. A state workforce development official told us that North Carolina is working toward preparing a workforce for growth in the green economy, but there are not sufficient training opportunities or jobs available to motivate workers to invest in training for green jobs.

Table 3: Number of WIA Dislocated Workers Who Participated in Training July 1, 2008, to December 31, 2008, Compared to Those Who Participated in Training July 1, 2009, to December 31, 2009

Local workforce investment area	WIA dislocated workers who participated in training 7/1/08 to 12/31/08	WIA dislocated workers who participated in training 7/1/09 to 12/31/09	Percent increase
Charlotte-Mecklenburg	122	571	368
Lumber River	57	245	330

Source: GAO analysis of Charlotte-Mecklenburg Workforce Development Board and Lumber River Workforce Development Board data.

State officials said that the Recovery Act funds were primarily being used for individual training accounts (ITA), which individuals use to purchase training through, for example, community colleges and community based organizations. Lumber River reported that all of its Recovery Act funds devoted to dislocated worker training are being used for ITAs. While Charlotte-Mecklenburg is using 83 percent of its Recovery Act dislocated worker training funds for ITAs, it is also using 17 percent to contract directly with institutions of higher education for group classes. Dislocated Worker funds provided through the Recovery Act may be used to provide training through contracts, which are authorized only in limited circumstances for regular WIA funds. Although the U.S. Department of Labor encouraged states and local areas to use Recovery Act funds to provide training for green jobs, both Lumber River and Charlotte-Mecklenburg officials said that there has been little opportunity to do this because few green jobs are available at this time. The Lumber River Workforce Development Board Administrator told us North Carolina developed the JobsNow 12 in 6 Program, which coupled short-term occupational skills training with a career readiness certificate program. Lumber River, this official said, promoted recruitment of dislocated workers into this program but said these efforts were not fully successful because the individuals were more interested in working than attending training.

North Carolina Clean Water and Drinking Water State Revolving Funds

The North Carolina Department of Environment and Natural Resources (DENR) administers the state's Clean Water State Revolving Fund (SRF) and its Drinking Water SRF and is responsible for providing loans from the two revolving funds to North Carolina localities and overseeing usage of the loan funds. The Clean Water SRF provides funds for the construction of publicly owned wastewater treatment facilities, implementation and management of non point source pollution control programs,[33] and development and implementation of estuary conservation and management plans. The Drinking Water SRF provides funds for the construction or upgrade of wells and intakes, water treatment plants, storage, and water lines; eligible uses include replacement of aging infrastructure and consolidation of water systems. North Carolina received approximately $71 million in Recovery Act funds for its Clean Water SRF and approximately $66 million for its Drinking Water SRF. Under the Recovery Act, states were to give priority to projects that were ready to proceed to construction within 12 months of enactment of the act. As of mid-April 2010, North Carolina's Clean Water SRF and Drinking Water SRF used almost $132 million in Recovery Act funds to provide assistance for 129 projects.[34] These projects include construction of wastewater infrastructure, local government planning for improving water quality, and restoring beaches and waterways. We interviewed and reviewed documents from DENR program officials and officials at two local projects—the Charlotte Muddy Creek/Campbell Creek Clean Water SRF project and the Perquimans Winfall Water Treatment Plant Drinking Water SRF project. We selected one urban and one rural project, both of which received a large amount of Recovery Act loan funds. Charlotte's Muddy Creek/Campbell Creek Project was awarded adjusted loan funds in the amount of $1.57 million which helped the state address the Recovery Act's green reserve requirement. The Perquimans Winfall Water Treatment

[33]Non point source pollution is generally caused by rainfall or snowmelt moving over and through the ground. Non point source pollutants could include excess fertilizers, herbicides, and insecticides from agricultural lands and residential areas; oil or grease from urban runoff; sediment from improperly managed construction sites and forests; and bacteria and nutrients from livestock.

[34]DENR awarded half of its Recovery Act funds in the form of principal forgiveness and the other half in the form of interest-free loans. Principal forgiveness means that half of each loan will not need to be repaid. The other half of the loan will need to be repaid at a zero percent interest rate. If a project's actual cost is lower than originally projected or the scope of the project is reduced, the same 50-50 split will be maintained. DENR program officials said that there is a cap of $3 million for each project award and approximately $1.7 million is expected to be repaid to the funds annually for 20 years. This money will be made available for other eligible projects, according to department officials.

Plant Project, located in a rural location, was awarded $3 million in funds in July 2009 and serves a community in need of drinking water infrastructure improvements.

State Officials Report Minimal Challenges in Meeting Recovery Act Requirements

DENR program officials told us that they have met all Recovery Act requirements for use of funds with minimal challenges, including meeting the February 17, 2010, deadline for projects to be under contract, despite the increased workload of processing approximately 250 Clean Water SRF applications and 600 Drinking Water SRF applications in 2009.[35] Clean Water SRF program officials told us that the only challenge to date occurred when green reserve requirement applicants failed to obtain easements prior to requesting loan approval.[36] However, DENR program officials reported that this problem was quickly resolved and the easements were obtained or other green projects on the priority list were funded.

The Drinking Water SRF program manager reported that the primary challenge in meeting the February 2010 contractual deadline was late or insufficient guidance from the U.S. Environmental Protection Agency (EPA) and U.S. Department of Labor (Labor). This late guidance pertained to the green reserve requirement as well as the Buy American[37] and Davis-

[35]In 2008, prior to passage of the Recovery Act, 10 localities applied for Clean Water SRF loans and 15 applied for Drinking Water SRF loans. DENR officials told us the large increase in the number of applicants was because of Recovery Act funding.

[36]According to state officials, easements are defined in several ways, including the granting of permission for a locality to run water or drainage pipes through private property. For green projects, program officers said that often an easement is granted when a landowner donates a tract of property for conservation purposes.

[37]The Recovery Act's Buy American provision generally requires that iron, steel, or manufactured goods used on a public building or public work must be produced in the United States, subject to limited exceptions. Federal agencies may issue waivers for certain projects under specified conditions, for example, if using American-made goods is inconsistent with the public interest or the cost of those goods in unreasonable. The act limits the "unreasonable cost" exception to those instances when inclusion of American made iron, steel, or other manufactured goods increase the overall project cost by more than 25 percent. Agencies also need not use American made goods if they are not sufficiently available or of satisfactory quality.

Bacon[38] provisions of the Recovery Act. Guidance concerning the latter two requirements, which call for language to be inserted into contracts and for subrecipients and contractors to ensure compliance, arrived late in the contractual process and were difficult to explain to subrecipients, according to DENR program officials. Some officials said that Davis-Bacon requirements were complicated. The Drinking Water Program Manager noted that since all applicants are anticipated to pay locally prevailing wages without this requirement, the mandate to ensure compliance through documentation and tracking is resulting in unnecessary costs that will not add to the value of the completed project. Project officials and the County Manager we interviewed praised state officials for their assistance and guidance with the implementation of requirements. These officials told us the information was provided via telephone calls, the DENR Web site, and during onsite monitoring.

North Carolina Clean Water SRF and Drinking Water SRF Status

DENR has used approximately $67.9 million in Recovery Act funds for 56 Clean Water SRF projects, and approximately $64 million in Recovery Act funds for Drinking Water SRF projects. DENR program officials reported that contracts for initial Clean Water SRF awards were $10.5 million less costly than expected, based on local cost estimates. As a result, DENR program officials said they used these funds as allowed under the Recovery Act to finance 5 additional clean water infrastructure projects and augment loan amounts given at the same financial terms for two additional clean water infrastructure projects.[39] DENR program officials also reported that as additional Recovery Act funds for the North Carolina Clean Water SRF and Drinking Water SRF funds become available, other Recovery Act compliant projects will be funded in priority order.

GAO Visited Two Local Government Projects

Charlotte project officials told us they received $1.57 million in Recovery Act funds and all of these funds were spent on environmental upgrades to restore Muddy Creek/Campbell Creek—a green reserve requirement

[38]Under the Recovery Act's Davis-Bacon provision, subrecipients of Recovery Act funds must pay at least the prevailing wages established by the Secretary of Labor for their area. The Recovery Act's Davis-Bacon provision requires all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by the act to be paid wages at rates not less than those prevailing on projects of a similar character in the locality.

[39]Bids came in 20 to 40 percent lower than estimated. North Carolina commits to program funding before bids are solicited.

eligible project. This project reduces pollutants from storm water and enhances and creates a wetland and river bank habitat. The officials told us the project was a prime candidate for Recovery Act funding because its engineering tests were complete and it was ready to proceed to construction. They further told us that Recovery Act funds allowed local funds previously dedicated to this project to be freed up for other green programs that had not been prioritized as high as the Muddy Creek/Campbell Creek Project.

Perquimans County received $3 million in Recovery Act funds to upgrade the Winfall Water Treatment Plant. This project includes upgrading the current water system to improve both the county's water quality and appearance. According to the Perquimans County Manager, this project was the number one priority for Perquimans County but had never been submitted to the Drinking Water program before for consideration. In the absence of Recovery Act funds, local officials said that user rates would have been insufficient to cover the cost of the infrastructure upgrade. According to the Perquimans County official, with Recovery Act funding these fees are not expected to rise.

Review of Local Governments Receiving Recovery Act Funding

As we have in developing prior bi-monthly reports, we visited local governments in selected rural and urban areas of the state to learn about the use of Recovery Act funds and their impact. Specifically, we visited Bladen County, the City of Durham, Halifax County, and the City of Jacksonville. We selected these localities based on variation in unemployment rate, population size, and geographic location (see table 4). This was our second visit to the City of Durham and Halifax County in an effort to provide a more detailed account of Recovery fund usage in those localities. Based on U.S. Census estimates, the population in the four localities ranges from 32,343 to 223,284. With budget cycles starting on July 1st and ending June 30th, the localities' budgets range from $36 million to $346 million. We interviewed officials in these cities and counties to obtain their perspectives on the Recovery Act. We also interviewed officials from the North Carolina League of Municipalities (NCLM)[40] to discuss their interactions with localities across the state pertaining to the Recovery Act.

[40]NCLM is a nonpartisan association of municipalities in North Carolina. NCLM provides member services designed to strengthen and support municipal governing processes at the local, state, and federal levels.

Table 4: Statistical Data on North Carolina Localities Visited

Locality	Population	Locality type	Unemployment rate	Budget	Total Recovery Act funds[a]
North Carolina	**9,222,414**	**State**	**10.9%**	**$19 billion**	**$5.1 billion**
Bladen County	32,343	County	12.2	38.4 million	734,227
City of Durham	223,284	City	7.4	345.6 million	8.9 million
Halifax County	54,582	County	13.2	36.4 million	517,271
City of Jacksonville	76,233	City	8.5	89.5 million	$5.6 million

Source: GAO analysis of Bureau of Labor Statistics, U.S. Census, selected local government budgets, and Recovery.gov data

[a]Based on Recovery Act funds reported to North Carolina's Office of Economic Recovery and Investment as of May 4, 2010.

Local Officials said that Recovery Act Funds Helped but Did Not Stabilize Their Budgets

The localities used the Recovery Act funds to support a variety of initiatives. Although their budgets differed in terms of stability, officials in all four localities told us that the Recovery Act funds they received helped to start, continue, or speed up a variety of programs and projects in their jurisdictions. For example, the City of Durham received $2.1 million in Energy Efficiency and Conservation Block Grant funds. Durham officials told us that they will use about one-half of these funds to improve energy efficiency in city facilities and the other half will be used to start up a neighborhood-based, residential energy efficiency upgrade program. According to the officials, these upgrades will include increased insulation, sealing air ducts, plugging air leaks in attics and crawlspaces, and installing programmable thermostats. A $1.5 million Federal Transit Administration formula grant will be used by the City of Jacksonville to purchase five replacement buses; procure a design and commence construction of a bus-washing facility; and purchase and install automated passenger counters. Bladen County will use $24.6 million in Recovery Zone Facility Bonds, under the Recovery Act, toward the development of a water treatment plant[41]. Officials from all of these localities indicated that these projects and programs would not have been initiated had they not received Recovery Act funding.

[41]Created by the Recovery Act, Recovery Zone Facility Bonds are tax-exempt private activity bonds that states and localities may, in general, use to finance certain recovery zone property. The recovery zone property must generally be used within designated recovery zones which can include areas having significant unemployment, rate of home foreclosures, or general distress. Recovery Act, § 1401(a), 123 Stat. 350–351

While the officials we interviewed told us that the Recovery Act funds were helpful in starting and advancing programs and projects in their localities, most indicated that the funds were not enough to affect their government's fiscal stability. For example, Bladen and Halifax County officials indicated that, despite the Recovery Act funds, their fiscal situations continue to decline. The officials told us that they continue to face difficult budget decisions in the wake of declining property and sales tax revenues. Halifax County officials told us that, in December 2009, county departments were asked to reduce their budgets by as much as 10 percent, which did not result in any layoffs but many employees' work hours were reduced from full-time to part-time. The officials said that the county is "dangerously close" to making noticeable and potentially harmful cuts in services. City of Jacksonville officials reported that receipt of Recovery Act funding had only a moderate impact on their budget because the economy in their area of the state has been generally stable when compared to other regions of the state and country, due to the presence of two large and growing military installations in close proximity to the city. As a result, Jacksonville officials did not view Recovery Act funds as a means to stabilize their budget, but to accelerate or expand planned projects.

Officials Reported Usage of a Variety of Recovery Act Funds Based on the Needs and Priorities of Their Localities

Officials in the four localities that we interviewed chose to focus their Recovery Act dollars on different priorities based on the needs in their respective jurisdictions. Both Bladen and Halifax officials told us that the Recovery Act funds supplemented existing programs and allowed them to either serve more residents or enhance program services. Both county officials also told us that their plan was to not use the funding they received from the Recovery Act on programs and projects that would require recurring expenses so that their citizens would not be adversely affected when the funds were no longer available. For example, at the time of our visit, Halifax officials reported that the county had received a total of $517,271 in Recovery Act funding through state and federal sources. The county plans to spend nearly 90 percent of those funds on boosting social services programs for children and the elderly, including day care provisions and its Meals on Wheels program. Similarly, Bladen officials told us that their county has a high population of senior citizens and plans to spend a significant portion of its Recovery Act funding on social services, which includes a portion of its Recovery Act funding for programs geared toward assisting its aging residents. According to officials from both counties, these programs will receive a one-time infusion of Recovery Act funding designed to supplement existing programs and allow them to either serve more residents or enhance program services for a limited period of time. Conversely, the City of Jacksonville, located in close proximity to two military installations and cited as one of the youngest cities in the United States with an average age of 22.9 years, will spend 100 percent of its Recovery Act funding on physical infrastructure projects and the procurement of four new police vehicles and other public safety equipment. The City of Durham plans to use its Recovery Act funding on a variety of programs and projects, including $746,013 from the Edward Byrne Memorial Justice Assistance Grant (JAG)[42] to fund one Domestic Violence Assistant District Attorney and $205,146 from a program under the Workforce Investment Act of 1998, administered by the U.S. Department of Labor to provide subsidized work experience and on-the-job training for eligible adult residents.

All Four Localities Planning for Phase Out of Recovery Act Funds; Only One Has a Formal Exit Strategy

One of the four localities that we visited had a formal exit strategy in place for when Recovery Act funds are phased out, but officials from the other localities indicated that their jurisdictions are having ongoing phase out discussions with the departments within their governments that are receiving Recovery Act funding. Specifically, the City of Durham developed formal budget guidelines for fiscal year 2011 in which the City proposes a specific strategy for when Recovery Act funds are no longer available. The proposal focuses on enhancing revenues to replace non-recurring Recovery Act funding for core services. Although Bladen, Halifax, and Jacksonville officials do not have formal plans in place to address the so-called Recovery Act funding “cliff,” they told us that they have made it clear that the Recovery Act supplements are one-time funding increases. Jacksonville officials also told us that they plan to absorb the continuing costs generated by projects.

North Carolina Budget Officials Report that Fiscal Challenges Persist, but See Some Early Signs of Potential Recovery

North Carolina budget officials told us that the state is still experiencing significant budget challenges, but reported some improvements over projections made in mid to late 2009. The officials told us that most state agencies have been required to withhold 5 percent of their budget spending in response to the state’s projected budget shortfall. According to state budget officials, beginning in January of this year the state

[42]The City of Durham will partner with Durham County. The Durham City Council approved a Memorandum of Understanding (MOU) with Durham County to share and use JAG funds to pay for the following shared public safety-related items: one Domestic Violence Assistant District Attorney, Code Red/Reverse 911 communication system, and personnel-related costs associated with the Warrant Control Center.

temporarily withheld state income tax refunds to individuals because the state did not have the cash to make the payments. The officials also told us that while they did not speed up or slow down their use of Recovery Act funds during fiscal year 2010, if the state had not received Recovery Act funding, it would likely have had to make deeper program cuts and raise taxes. According to a report issued by the North Carolina Fiscal Research Division[43], the state's fiscal year 2009-2011 biennial budget relies heavily on Recovery Act funds. The report states that when adjusted for the $1.7 billion in Recovery Act funds, the fiscal year 2009-10 total state budget actually decreased $2.3 billion, or 4.7 percent. For example, according to state budget officials, North Carolina's reserve fund, or "rainy day" account, was approximately $900 million before it received Recovery Act funds. State officials told us that they used all but $150 million of its rainy day funds to help close the budget shortfall from fiscal year 2009. The officials also indicated that the state had spent nearly $1 billion in Recovery Act assistance and would have been forced to deplete its entire rainy day account if Recovery Act funds were not available. In April, the Governor released her budget recommendations for fiscal year 2010-2011 proposing to put $100 million into the state's rainy day fund which it plans to use in the event of an emergency or as a buffer in the event the state does not impose an estate tax on the estates of individuals who die in 2010. State budget officials explained that, according to state law, North Carolina's estate tax mirrors the federal estate tax and both expired in December 2009, but will return in January 2011. The state will lose revenues in 2010-2011 if the state does not amend its requirement to mirror the federal estate tax and the federal estate tax is not applied to 2010.

State budget officials reported signs of improvement in revenues for the first quarter of 2010. Specifically, the state budget office had projected an $850 million shortfall in the summer of 2009, but modified their shortfall projections in December to $450 million deficit. Most of the improvement, however, is related to a corporate settlement initiative that boosted revenue collections by $422 million. In addition, officials credited the improved budget standing to slightly better than expected revenues in sales and individual income taxes.

[43]The Fiscal Research Division is a non-partisan state agency that provides budget and tax-related analysis and information to all members of the State of North Carolina's General Assembly.

The officials told us that state officials have had executive discussions regarding a state plan for when Recovery Act funds are no longer available. The officials said that it is difficult to make definitive plans for weaning their programs off of Recovery Act funds because it is hard to predict what the condition of the state or the overall economy will look like a year from now. They said that the state will have a formal exit strategy developed in early 2011.

Reporting and Accountability: North Carolina Recovery Act Accountability Community

To ensure accountability and oversight over federal funds received by North Carolina, the Office of the State Auditor (OSA) annually conducts a “Single Audit” that reports on internal controls over financial reporting and compliance with pertinent laws and regulations, as well as a report on compliance with requirements applicable to each major federal program and internal controls over compliance in accordance with OMB circular 133. North Carolina’s 2009 Single Audit report included 168 findings. Eight of these findings were material weaknesses related to provisions of the Recovery Act for the North Carolina Department of Public Instruction (DPI); ESEA Title I Grants to Local Educational Agencies (2), Special Education Grants to States (3), and Special Education Preschool Grants (3). All of the 8 material weaknesses were related to insufficient subrecipient monitoring. The state auditor’s office told us that single audit reports have consistently reported findings related to subrecipient monitoring by state agencies. Insufficient subrecipient monitoring and other deficiencies leave Recovery Act funds vulnerable to fraud, waste, and abuse.

North Carolina has various other entities, in addition to the State Auditor, that provide oversight to ensure the state’s recipients are held accountable for the Recovery Act funds they receive. These entities include the Office of Economic Recovery and Investment (OERI), the Office of Internal Audit (OIA), as well as local government oversight authorities.

Office of the State Auditor

In addition to the 2009 Single Audit, OSA is performing interim agency specific internal control and compliance audits for agencies receiving Recovery Act funds. Four interim reports covering the North Carolina Departments of Health and Human Services (NCHHS), Environment and Natural Resources (DENR), Agriculture and Consumer Services (DACS), and Commerce (NCDOC) were issued by OSA prior to the issuance of the 2009 Single Audit. These reports identified numerous issues that could affect the oversight of Recovery Act funds administered by these agencies. For example:

- At NCHHS, the State Auditor reported 10 findings, including internal control deficiencies in cash management and subrecipient monitoring.

- At DENR, the State Auditor reported that Clean Water and Drinking Water subrecipient audit reports were not reviewed, as mandated by federal subrecipient monitoring requirements.

- At DACS, the State Auditor noted certain deficiencies in internal control over financial reporting by DACS.

- At NCDOC, the State Auditor reported deficiencies in subrecipient monitoring at the State Energy Office (SEO) and recommended that SEO revise its monitoring plans and tools to ensure that Recovery Act compliance issues are addressed timely.

OERI senior officials told us they reviewed the OSA reports with NCHHS and NCDOC and detailed steps both agencies are taking to address the OSA findings. NCDOC has revised its monitoring plans and tools to ensure that Recovery Act-specific compliance requirements are addressed timely. The agency has also assigned an internal auditor to the Energy Program who is responsible for implementation of the plans and compliance spreadsheets have been developed so that monitoring is consistent. The Energy Office has filled 2 positions for compliance monitoring and has taken steps to fill an additional 5 positions for compliance monitoring, which will bring their total staff for compliance monitoring to 18.

OERI senior officials also report that NCHHS has taken numerous actions to address OSA findings. For example, NCHHS has sent letters to all 100 North Carolina counties providing Recovery Act federal award information and reporting requirements. The agency, according to OERI, has also implemented processes to drawdown federal Medicaid Program funds based on actual expenditures, rather than estimates and an additional level of review has been added to ensure that federal reimbursement codes are accurate. NCHHS is also taking steps to address the reported deficiencies in subrecipient monitoring by prioritizing completion of an internal tracking system that schedules required monitoring activities within appropriate timeframes and follow-up on any required corrective actions. In addition, OERI is using a tracking system to monitor obligations and expenditures at the subrecipeint level on a monthly basis. OERI staff, senior officials report, will continue meeting with NCHHS staff to follow the impact of these and other corrective actions until the findings have been completely resolved.

Subsequent to the issuance of the 2009 Single Audit report, the State Auditor issued 3 more interim agency specific internal control and compliance audits for agencies receiving Recovery Act funds, one on the Office of State Budget and Management (OSBM), the Employment and Security Commission, and on DPI.

- The State Auditor reported that OSBM did not have controls in place to ensure that the calculation of the state's elementary and secondary education expenditures for fiscal year 2006 were accurate. Since the SFSF, the Recovery Act requires states to assure that they will maintain at least their 2006 level of education support in fiscal years 2009, 2010, and 2011 in order to receive SFSF, errors in this calculation could result in the state not maintaining adequate support.
- The State Auditor reported that DPI had material weaknesses in subrecipient monitoring as reported in the Single Audit, plus additional material weaknesses specific to DPI including:
    - September expenditures omitted from initial Section 1512 Recovery Act report
    - Failure to comply with federal suspension and debarment requirements[44]
    - Verification of central contractor registration not performed timely[45]

Office of Economic Recovery and Investment

As we previously reported, OERI was set up by the state to help agencies track, monitor, and report on Recovery Act funds. The state Web site www.NCrecovery.gov is designed to maintain a record of how Recovery Act funds are being spent in a way that is transparent and accountable. OERI officials told us that the implementation of a new software system that is intended to integrate North Carolina's various state agency systems into an overall state-wide system has been experiencing delays. The new

[44]DPI did not verify that any of the subrecipients of SFSF were not suspended or debarred. This can be accomplished by checking the Excluded Parties List System maintained by the U.S. General Services Administration, collecting a certification from the entity, or adding a clause or condition to be covered to the transaction with that entity.

[45]The central contractor registration (CCR) database is the primary government repository for contractor information required for the conduct of business with the federal government. Since October 1, 2003, it is federally mandated that any contractor wishing to do business with the federal government under a Federal Acquisition Regulation (FAR)-based contract must be registered in CCR, with exceptions prior to award of a contract or agreement.

system will serve as the state's Recovery Act tracking tool and will pull data from several state accounting and procurement systems in order to present a more comprehensive accounting of Recovery Act funds. OERI officials stated that the software system, which was originally expected to be operational by December 2009, is currently in the testing phase and should be operational in the near future. In the meantime, OERI continues tracking the status of the state's Recovery Act funds on an Excel spreadsheet, referred to as the *Weekly Funding and Disbursement Report*, which relies heavily on the state agencies weekly reporting of complete and accurate information to OERI.

North Carolina's OERI Director issued a series of management directives to state agency senior management to address reporting and other accountability mechanisms. The first of these—dated April 9, 2009—stated that state agencies were to report to OERI on a weekly basis the amount of Recovery Act funds they had obligated, disbursed, and drawn down. OERI officials told us that they use the agency weekly reports to update OERI's *Weekly Funding and Disbursement Report* that in turn is used for tracking the amount of Recovery Act funds spent and also as a monitoring tool. For example, OERI officials are assigned specific agencies to track Recovery Act grants received in order to ensure the agency is on track to meet statutory deadlines to obligate funds. If it appears that the agency will not be able to obligate the funds before the obligation period expires, OERI officials said they work with the state agency and cognizant federal agency on arrangements to have the funds redistributed.

Office of Internal Audit

OIA is housed within OSBM and provides internal audit services for eight of North Carolina's state agencies: (1) Department of Administration (DOA); (2) NCDOC; (3) OSA; (4) Department of Labor; (5) Community Colleges Central Office; (6) OSBM; (7) Governor's Office; and (8) Wildlife Resource Commission.[46] OIA's Assistant State Budget Officer/Audit Director stated that in September 2009 her office received $1.2 million of Recovery Act SFSF funds to cover the salaries and other expenses (i.e. travel) for 5 additional auditors to cover the extra workload associated with the risk assessments, compliance reviews, and assessments of sub-recipient monitoring plans for Recovery Act funds. NCHHS, DPI, and DENR were each assigned one of the 5 newly hired auditors. A fourth

[46]According to OIA's Assistant State Budget Officer/Audit Director, other state agencies have their own Internal Audit office.

auditor conducts an audit of the SFSF funds every 6 months and other audits as assigned. A Memorandum of Understanding (MOU) was established between OIA and the SEO where the fifth auditor was placed to perform audits of the Weatherization Program. This auditor was hired in October 2009 and resigned in March 2010; the position remains vacant. Thus far, these auditors have issued 2 audit reports— an assessment of DENR's internal controls over purchasing and accounts payable and a report on a special project to compare other states' policies and procedures with the SEO's policy and procedure manual and identify best practices related to the energy programs. The DENR report indicated that DENR purchasers were unfamiliar with Recovery Act requirements, which resulted in 5 findings including 2 purchases that lacked adequate competition, 1 that lacked adequate documentation to support the sole source purchase, and 2 others that were made on a State contract without proper approval. The SEO report resulted in a finding regarding SEO's program policies and procedures manuals and identified several best practices. OIA has an additional 9 audits that are in process with more planned for the future. The OIA Assistant State Budget Officer/Audit Director stated that, together, its auditors cover about 70 percent of the state's Recovery Act programs accounting for about 82 percent of the Recovery Act funds.[47]

City Oversight

The City of Charlotte's Internal Audit Department provides oversight of Recovery Act funds received by the city and has begun to perform audits and reviews. Department auditors told us that they issued their first Recovery Act report before the first 1512 quarterly report in order to encourage better record keeping. The department's report on Recovery Act reporting readiness was issued on September 25, 2009. This report addressed the problem encountered due to the software's unavailability during the trial run and reported that problems had been fixed. The report showed that 93 percent of the required data had been entered into its computer system by September 25, 2009. The Internal Auditors reported to us that by the first reporting deadline--October 10, 2009--100 percent of the data had been entered into the system. In fiscal year 2010, the group is focusing their Recovery Act audit efforts on assessing the performance measures on a single project, the Clean Water SRF, Muddy Creek.

[47]These numbers do not include North Carolina's Department of Transportation and Department of Correction because these agencies have internal audit programs. The Department of Transportation has 29 audit positions in its Inspector General function and the Department of Correction has 18 internal audit positions.

North Carolina Officials Report Few Problems with Recipient Reporting, but More Review Is Necessary to Fully Ensure Accuracy of Data

After the April 2010 recipient reporting deadline, we interviewed officials from two state education agencies, DPI and the University of North Carolina General Administration (UNC-GA)[48] to assess their methods for calculating and validating full-time equivalents (FTE) to meet the recipient reporting requirement for jobs paid for with Recovery Act funds. We also interviewed officials in one LEA—Wake County Public Schools System—and one institution of higher education (IHE)—University of North Carolina at Chapel Hill—to assess the methods these institutions used to calculate the FTE data they send to the respective state agencies. North Carolina officials we spoke with at the state and local levels reported few problems with the most recent recipient reporting. These officials also described similar processes for calculating FTEs, with LEAs having the responsibility for reporting jobs to DPI and the University of North Carolina's 16 individual university campuses reporting jobs to UNC-GA.

A senior official in DPI's finance office told us that the Department uses its existing financial management system to collect LEAs' budget data to report FTEs for jobs paid for with Recovery Act funds. LEAs electronically submit budget and monthly payroll data to DPI. According to this official, the budget data include the number of positions paid with Recovery Act funds. DPI then uses these data to report the FTEs for LEAs. Wake County Public Schools System (WCPSS) officials explained that the state's budget system includes options for designating (1) whether a salary paid with Recovery Act funds has changed from prior budget submissions, (2) the salary represents a job that is saved or one that is created (i.e., a new position) and (3) options for LEA uses of the funds (hire new staff to support or expand ESEA Title I programs, for example). However, this senior official in DPI's finance office noted that the information the state receives from LEAs reflects uses of the funds for direct personnel, but does not include FTEs for vendors paid with Recovery Act funds. This DPI official reported that DPI uses the budget data to determine the number of staff FTEs and validates these data using the monthly payroll data. This senior DPI official also said that if there are discrepancies, staff will contact the LEA to reconcile the differences. To report on SFSF funds, DPI submits data on the number of FTEs to the North Carolina Office of State Budget and Management (OSBM), the agency responsible for

[48]The University of North Carolina – General Administration office is responsible for administration related to North Carolina's public higher education system. The office is responsible for executing the policies of the UNC Board of Governors and providing administrative oversight in such areas as academic affairs, business and financial management, research, and governmental relations.

submitting recipient reports for SFSF funds, which then reports the data through federalreporting.gov. DPI directly reports data for ESEA Title I and IDEA Part B through federalreporting.gov. While DPI's method for collecting recipient reporting information can ensure that staff salaries paid with Recovery Act funds are uniformly captured, the state is likely underreporting uses of Recovery Act funds because it does not capture FTEs for vendors (e.g., professional development providers). DPI officials reported that the department will develop a web-based system to collect vendor FTEs for the next recipient reporting period.

UNC-GA officials reported to us that institutions in North Carolina's university system calculate FTEs individually and each institution sends these data to UNC-GA. UNC-GA officials said that the office's role is to provide state-specific guidance to IHEs based on OMB's guidance, check the data that IHEs submit, and report the data to OSBM in the same manner as DPI. For the most recent reporting period, for example, UNC-GA sent guidance that required IHEs to report FTEs for 1 month (rather than 3), for the entire quarter, because SFSF funds were used to pay 1 month of salaries for existing instructional staff. A University of North Carolina at Chapel Hill (UNC-CH) finance official said that the institution submits its total FTEs for the quarter to UNC-GA. This official reported to us that UNC-CH uses a printout from its payroll data system, which includes a list of employees paid for the month (by university department and alphabetized within each departmental category), the FTE for each employee, total salary for each employee, and the total salary expenditure by the university, to determine FTEs. This official also said that, to develop FTE data, staff count FTEs, starting with the first employee on this list of employees, until total salaries equal the total SFSF expenditure. UNC-GA officials said that once they receive the FTE numbers from IHEs, they conduct a check for "reasonableness" using factors such as the IHE's past FTE submissions and similarity to other institutions. These officials said that they do not request supporting documentation, although IHEs are expected to maintain the documents related to their submissions to UNC-GA. UNC-GA officials also said that they share monitoring responsibilities with OSBM analysts who compare IHE budgets to expenditures. However, our review of supporting documentation revealed that UNC-CH underreported an estimated 44 FTEs, out of a total reported FTE figure of about 606 FTEs, in the second round of recipient reporting because teaching assistants were assigned "0" FTEs.[49] The UNC-CH finance official

[49]The official reported that each teaching assistant should have been calculated as a 0.15 FTE.

we spoke with acknowledged the omission, and said that the institution has taken action to include teaching assistants in future reporting. By spot checking supporting documentation, UNC-GA could detect and correct reporting errors, such as those of UNC-CH, to prevent possible under- or overreporting by individual institutions. A UNC-GA official reported that guidance for future reporting periods will include a reminder that all salaries paid with Recovery Act funds, including teaching assistants, must be included in the FTE totals that institutions report.

State Comments on This Summary

We provided a draft of this appendix to the Governor of North Carolina, the North Carolina State Auditor's Office, and the North Carolina Office of Economic Recovery and Investment. We also provided various state agencies and local officials with excerpts of this appendix related to their program. In general, state and local officials agreed with our draft and provided some clarifying and technical suggestions that we incorporated as appropriate.

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