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RECOVERY ACT

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

Accountability * Integrity * Reliability

GAO-10-605SP

Appendix XVII: Texas

Overview

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

What We Did

We reviewed the use of Recovery Act funds in Texas for weatherization, clean water and drinking water, and public housing projects. For descriptions and requirements of the programs we covered, see appendix XVIII of GAO-10-605SP. For these programs, we focused on how funds were being used, how safeguards were being implemented, and how results were being assessed:

- The Weatherization Assistance Program (WAP), administered by the Texas Department of Housing and Community Affairs (TDHCA), was selected because Recovery Act funding ($327 million) constitutes a manifold expansion of the program in Texas. Before receiving Recovery Act funding, TDHCA averaged approximately $5 million annually in WAP funding from the U.S. Department of Energy (DOE). Among other objectives, we examined (1) how TDHCA is managing the significant increase in WAP funding, (2) the extent to which the weatherization measures being installed in homes result in energy cost savings, and (3) internal controls TDHCA has in place to ensure that Recovery Act funds are spent appropriately. At TDHCA, we reviewed WAP implementation plans and interviewed program officials. To make on-site observations, we visited weatherization projects in Houston and San Antonio, areas where significant levels of Recovery Act weatherization funding had been allocated and where varying weatherization approaches were being used.

- We selected the Clean Water State Revolving Fund (SRF) and the Drinking Water SRF programs because they are now getting underway in Texas and have not been addressed in our previous bimonthly reports. We reviewed project eligibility criteria and related documentation obtained from the Texas Water Development Board (TWDB), which administers the programs, and interviewed TWDB officials. Also, we made on-site observations and conducted interviews at a clean water project in Austin (the Hornsby Bend Biosolids Management Plant) and a drinking water project in Laredo (the

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

Jefferson Water Treatment Plant). We selected Austin because according to TWDB, at an estimated cost of $31.8 million, the project nearly meets the full 20 percent green reserve requirement for Clean Water SRF projects in Texas.[2] We selected Laredo because the $48 million drinking water project is receiving the largest amount of funding of all Recovery Act SRF projects in Texas.

- The public housing program was selected because of the funding obligation deadline that was scheduled during this bimonthly reporting period. That is, by March 17, 2010, housing agencies were required to obligate 100 percent of the Capital Fund formula grants allocated under the Recovery Act. At two offices of the U.S. Department of Housing and Urban Development (HUD) in Texas—the Fort Worth Regional Office and the San Antonio Field Office—we reviewed funding obligation data and interviewed officials to discuss the types and extent of assistance and guidance that HUD provided to public housing authorities for obligating and expending Recovery Act funds. We made on-site observations regarding use of these funds by public housing agencies in four cities. Specifically, we selected a large city (El Paso) and a small city (McKinney) that had obligated (as of Jan. 30, 2010) less than 50 percent of their Capital Fund formula grants allocated under the Recovery Act; also, we selected a large city (San Antonio) and a small city (Ferris) that had obligated 50 percent or more of their funds.

Further, in Texas, we obtained state and local government perspectives on overall use and impact of Recovery Act funds. Specifically, at the state level, we obtained perspectives from the Office of the Governor, staff of the Legislative Budget Board,[3] and the State Comptroller's Office; and, at the local level, we contacted city management officials in Austin, Dallas, and Houston. Also, we reviewed efforts by state and local government to promote accountability for use of Recovery Act funds. We focused in

[2]That is, at least 20 percent of the funds provided under the Recovery Act for both Clean Water and Drinking Water SRF projects are to be used for green infrastructure, water or energy efficiency improvements, or other environmentally innovative projects.

[3]According to state officials, the Legislative Budget Board is a permanent joint committee of the Texas legislature that develops budget and policy recommendations for legislative appropriations for all agencies of state government, as well as completes fiscal analyses for proposed legislation. The lieutenant governor and House speaker serve as co-chairs of the board. Other members include the chairs of the House Appropriations Committee and Senate Finance Committee. See www.lbb.state.tx.us.

particular on efforts by the Office of the Governor, the State Auditor's Office, and city audit offices in Austin, Dallas, and Houston.[4]

What We Found

- **Weatherization Assistance Program.** For various reasons, TDHCA experienced delays in beginning work on the almost 34,000 homes projected to be weatherized using Recovery Act funds. According to Texas officials, the delay in weatherizing homes in Texas is due primarily to DOE actions, such as denying the state's request to expand the network of weatherization providers (subgrantees). In contrast, DOE contended that Texas has not undertaken sufficient actions to implement the program in spite of several meetings DOE held with Texas to accelerate the program. Regardless of the reasons, the delay in weatherizing homes has delayed realization of the potential economic benefits of the Recovery Act funds allocated to WAP and energy savings for many low-income Texans eligible for weatherization assistance. TDHCA is accelerating its progress in weatherizing homes, but several challenges remain. As of April 7, 2010—almost a year into the program—11 of the 44 subgrantees had not completed weatherizing any homes. To enhance the pace of weatherization activity, TDHCA recognizes that it will need to increase attention to weatherizing multifamily units—an approach with risks in that TDHCA and subgrantees have limited experience and training on weatherizing multifamily units. TDHCA has internal controls for WAP to help ensure that Recovery Act funds are spent according to program objectives and the state's 44 subgrantees are adequately monitored. However, several potential refinements for enhancing internal controls and monitoring have been identified in reviews conducted by TDHCA's Internal Audit Division and us.

- **Clean Water and Drinking Water.** The state of Texas received $180.9 million in Recovery Act funding for the state's Clean Water SRF[5] and $160.7 million in Recovery Act funding for the Drinking Water SRF. According to officials, TWDB established a solicitation and

[4]As indicated, we contacted city management and audit officials in Austin, Dallas, and Houston to obtain local government perspectives on overall use and impact of Recovery Act funds and efforts to promote accountability for use of the funds. We selected these cities because they were awarded large amounts of Recovery Act funding and are located in different geographic areas of Texas, while collectively accounting for approximately 17 percent of the state's total population.

[5]Of the $180.9 million in Recovery Act funding for the Clean Water SRF, $179.1 million went to TWDB, and $1.8 million went to the Texas Commission on Environmental Quality.

ranking process and met the requirement to have Recovery Act-funded SRF projects under contract by February 17, 2010. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects. TWDB officials stated that because of lower-than-expected construction bids, and lower-than-anticipated contract awards, the 46 projects include 10 more than initially anticipated—that is, 2 additional Clean Water SRF projects and 8 additional Drinking Water SRF projects. According to TWDB officials, the state encountered a challenge in awarding Recovery Act funding because the federal Environmental Protection Agency (EPA) has not established clear criteria for green reserve projects. According to EPA and TWDB, multiple oversight and monitoring efforts, both within TWDB and by EPA auditors and program staff, are underway or planned to ensure accountability for use of Recovery Act funds by subrecipients.

- **Public housing.** Of the 415 public housing agencies in Texas, 351 collectively received $119.8 million in Public Housing Capital Fund formula grants from HUD under the Recovery Act. Collaborative efforts by HUD and the recipient agencies resulted in the obligation of all of the funds by the 1-year deadline established by the Recovery Act, or March 17, 2010. Upcoming deadlines are for expenditures—that is, the Recovery Act states that 60 percent of the Public Housing Capital Fund formula grant funds must be expended within 2 years of HUD obligating the funds to PHAs, and 100 percent of the funding must be expended within 3 years. To provide accountability for use of the funds, the HUD offices we contacted in Texas have ongoing and planned reviews to monitor whether public housing agencies are complying with Recovery Act procurement policy and related requirements and are disbursing and expending funds for approved activities.

- **Use and impact of funds.** Recovery Act funds continue to support a range of programs in Texas. As of March 28, 2010, Texas state entities had spent about $8.3 billion of the approximately $17.5 billion in Recovery Act funds awarded to the state, according to the State Comptroller's Office. The share of Recovery Act funds that have been spent varies among programs, depending on program-specific characteristics. Program officials also described their plans or exit strategies regarding the end of Recovery Act funding. At the local government level, city officials we contacted in Austin, Dallas, and Houston cited various positive effects that Recovery Act funds have had on their communities. However, the officials noted the amounts of Recovery Act funds awarded are relatively small compared to the respective city's overall budget and, thus, have had limited overall budgetary impact.

- **Promoting accountability.** State entities and the local governments we reviewed in Texas are taking actions to help ensure Recovery Act funds are used appropriately. The state of Texas has used its Single Audit to provide more timely feedback, such as early written communication of internal control deficiencies on Recovery Act programs. Moreover, the Texas State Auditor and other state officials are continuing to review and monitor Recovery Act funds. The city auditors we contacted in Austin, Dallas, and Houston are also taking actions to monitor Recovery Act funding, including early identification of risks related to the Recovery Act.

Weatherization Activity Is Dramatically Expanding, but Program Improvements Are Possible

The Department of Energy (DOE) allocated about $327 million to Texas for the Recovery Act Weatherization Assistance Program (WAP) to be spent over the 3-year period from April 2009 through March 2012. As of July 10, 2009, the Texas Department of Housing and Community Affairs (TDHCA), which administers WAP at the state level, had access to 50 percent of these funds, or $163.5 million. TDHCA plans to retain about $30 million of the total allocation to support training, technical assistance, and administrative expenses and use the remaining approximately $297 million to weatherize about 34,000 homes of low-income Texas residents. The $297 million is to be distributed, at the local level, by 44 subgrantees through a total of 78 contracts that cover the state's 254 counties.[6] The WAP has long been an active program in Texas, but Recovery Act funding constitutes a manifold expansion of the program in the state. Prior to receiving Recovery Act funding, TDHCA averaged approximately $5 million annually in DOE WAP funding and typically completed weatherization measures on 1,740 homes a year. Our review of the WAP focused on determining the following:

- The status of the program and how TDHCA is managing the significant increase in program funding.

[6]Some subgrantees entered into multiple contracts. Throughout the course of our work, TDHCA documents reported that Texas had 45 subgrantees with 79 associated contracts. As our report was being finalized, TDHCA said that one of the subgrantees (the City of McAllen) had ended its involvement with the program, reducing the number of subgrantees to 44 and the number of contracts to 78.

- The types of weatherization measures being installed in homes in Texas and the extent to which these measures result in energy cost savings.

- The internal controls TDHCA has in place to ensure that Recovery Act funds are spent in accordance with program objectives.

- The status of training additional weatherization workers to accommodate the significant increase in households anticipated to receive assistance from the Recovery Act-funded WAP.

After a Delayed Start, TDHCA Has Made Progress in Implementing WAP but Will Need to Overcome Several Vulnerabilities to Sustain Progress

TDHCA plans to weatherize almost 34,000 homes with the significant increase in WAP funding that came with the Recovery Act. As of March 31, 2010, TDHCA reported in its latest status update to DOE that 1,834 homes had been weatherized.[7] DOE guidance stipulates that TDHCA cannot access the second half of its Recovery Act funding ($163.5 million) until it demonstrates to DOE that 30 percent of the total number of homes targeted for weatherization (more than 10,170 homes) have in fact been completed. According to DOE, each state is expected to reach the 30 percent goal before September 30, 2010. Several factors—including issues associated with establishing wage rates for weatherization workers and with settling on a network of subgrantees—delayed the start up of the program in Texas.[8] Regardless of the causes, delayed weatherization activity delays realization of the full potential economic benefits of the Recovery Act funds allocated to WAP as well as energy savings for many low-income Texans eligible for weatherization assistance.

With respect to the issues associated with establishing wage rates, we reported in March 2010 that complying with Davis-Bacon requirements for wage-setting had caused delays in implementing the Recovery Act WAP.[9] Specifically, a number of states that received increased WAP funding

[7]In commenting on a draft of this appendix, a senior official representing the Office of the Governor said that Texas had weatherized substantially more units in April 2010 and was continuing to make accelerated progress in May.

[8]Nationwide, the WAP experienced issues associated with establishing wage rates for weatherization workers. See GAO, *Recovery Act: Factors Affecting the Department of Energy's Program Implementation*, GAO-10-497T (Washington, D.C.: Mar. 4, 2010) and GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to be Fully Addressed*, GAO-09-1016 (Washington, D.C.: Sept. 23, 2009).

[9]GAO-10-497T and GAO-09-1016.

under the Recovery Act, including Texas, decided to not begin weatherizing homes until the U.S. Department of Labor determined prevailing wages for weatherization workers, as required by the Recovery Act's Davis-Bacon provision.[10] Texas, as well as the other states, was authorized to begin weatherizing homes in July 2009 using Recovery Act funds—so long as the state agreed to pay back wages to any weatherization workers who were paid less than the prevailing wages ultimately set by Labor. TDHCA officials explained that they and the WAP subgrantees wanted to avoid having to pay back wages and were unwilling to assume what they perceived as potentially large legal and accounting risks; so, they decided to delay weatherizing homes. After the prevailing wages were published in final form in December 2009, the subgrantees began weatherizing homes. TDHCA reported that 47 units statewide had been weatherized using Recovery Act funds by the end of December 2009.

Difficulties experienced by TDHCA in assembling a DOE-approved network of subgrantees to implement the greatly expanded level of weatherization activity also contributed to delays. To enable the dramatic expansion in weatherization activity anticipated by the Recovery Act, TDHCA identified the need to significantly expand its network of subgrantees from the 34 it was using to conduct WAP activities before the Recovery Act. TDHCA initially anticipated using 81 subgrantees to distribute WAP assistance. The 81 entities consisted of 34 existing nonprofit entities, 32 municipalities (including some with no previous WAP experience), and 15 nonprofit entities to be selected on a competitive basis. Some of the municipalities chose not to accept program funding before TDHCA submitted its draft Recovery Act WAP plan to DOE; so in April 2009, TDHCA submitted its WAP plan to DOE, requesting permission to fund 69 subgrantees.

According to TDHCA officials, DOE approved the plan in July 2009 but later directed TDHCA to revise the plan to use the existing network of nonprofit entities and a few large cities to distribute WAP assistance. According to DOE officials, the Texas WAP plan was not approved until TDHCA agreed to restructure the plan so that a larger portion of the

[10]The Davis-Bacon Act requires that contractors and subcontractors pay workers the locally prevailing wages on federally funded construction projects, and it imposes several administrative requirements relating to the payment of workers on qualifying projects. Prior to the Recovery Act, Davis-Bacon requirements did not apply to DOE's WAP; therefore, Labor had to determine county-by-county prevailing wages for weatherization workers in Texas and other states.

funding was provided to the existing network of subgrantees, thereby giving these subgrantees preference, as required by WAP regulations. DOE officials also contend that they never advised TDHCA to use a few large cities as subgrantees to distribute WAP assistance; rather, DOE officials indicated that the decision was made by TDHCA. Acting on DOE's recommendation, TDHCA made several additional changes to the plan and to the number of subgrantees it planned to use to implement WAP at the local level throughout the state. In March 2010—8 months after weatherization activity was authorized to begin—TDHCA submitted its revised plan to DOE. The revised plan proposed a network of 45 subgrantees—33 existing nonprofit entities and 12 large cities. According to TDHCA officials, as of May 11, 2010, DOE had not approved the revised plan. Texas has continued to weatherize homes based on the previously approved plan.

TDHCA has taken steps that it expects will lead to an increase in the number of homes weatherized with Recovery Act funding in the coming months. In particular, TDHCA says it has now completed all negotiations with subgrantees, and the department reported that it is holding weekly meetings with all subgrantees. Thus, during our exit conference in May 2010, TDHCA officials expressed confidence that the department is on track to meet DOE's 30 percent goal by the end of August 2010, or about 1 month earlier than the expected date of September 30, 2010, that DOE set for all states. The TDHCA officials also expressed confidence that the department will successfully weatherize the 33,908 homes projected to be completed with Recovery Act funding by the end of March 2012.

Regarding the number of jobs funded with Recovery Act WAP dollars, in April 2010, TDHCA reported 297.27 full-time equivalents into FederalReporting.gov.[11] According to TDHCA officials, to help ensure accuracy of job reporting by subgrantees, the agency conducted webinars, provided written guidance and job-reporting templates, established a centralized reporting Web site, and performed quality checks on submitted data.

TDHCA is accelerating the pace of weatherization activity. For example, as mentioned previously, TDHCA reported to DOE that a total of 1,834 units

[11]The FederalReporting.gov system was created and managed by OMB and the Recovery Accountability and Transparency Board for all Recovery Act recipients to report on the nature of projects undertaken with Recovery Act funds and on job creation estimates.

had been weatherized as of March 31, 2010—a substantial increase from the 47 completed as of December 31, 2009. However, several challenges remain. Some subgrantees are continuing at a very slow pace. As of April 7, 2010—almost a year into the program—11 of the 44 subgrantees had not completed weatherization of any homes. TDHCA officials also voiced concerns about other subgrantees' capacity to meet production goals for WAP; therefore, the officials said that TDHCA has adopted a rule allowing funds to be reallocated to successful or new subgrantees. DOE officials recently voiced concern with the progress TDHCA is making in implementing the Recovery Act-funded WAP as well. For instance, in April 2010, DOE reported that it had not been pleased with the state's progress in implementing the Recovery Act WAP and had constant communication and several meetings with TDHCA staff in efforts to provide additional assistance and accelerate progress.

Maintaining the accelerating pace it has recently been able to achieve will require TDHCA to address several important potential vulnerabilities if the department is to avoid implementation problems down the road. In particular, given the accelerated pace of spending, TDHCA is significantly expanding the number of program officers responsible for monitoring subgrantees' compliance with WAP requirements. In April 2010, TDHCA reported that 5 additional monitors had been hired, bringing the on-board total to 11. Further, TDHCA recognized a need to hire 8 more. An experienced program officer and a subgrantee representative with considerable weatherization experience told us, however, that it can take about a year for new staff to become fully capable of effectively monitoring all aspects of WAP. Thus, until the new program officers gain field experience, there is heightened risk that program oversight may be weakened. Inexperienced program officers may not detect mistakes made by the 44 subgrantees (many of which are new to WAP) and their contractors—all of whom are under pressure to increase production. However, in commenting on a draft of this appendix, Texas officials said they believe a full year is not needed to gain the necessary experience. Further, the officials said that they manage the process by assigning new monitors to work with more seasoned staff and by providing comprehensive training.

To complete weatherization work on the target number of homes statewide, TDHCA plans to increase its attention on weatherizing multifamily units. This approach may, however, introduce another risk factor for successful implementation of the Recovery Act WAP. That is, TDHCA and the subgrantees have limited experience and training on weatherizing multifamily units. TDHCA staff also said some subgrantees are hesitant to weatherize multifamily units because they do not have experience with such work. The potential adverse affects of inexperienced subgrantees weatherizing large numbers of multifamily units is demonstrated by TDHCA's findings based on a February 2010 monitoring visit to a subgrantee in Houston (Sheltering Arms Senior Services, Inc.). TDHCA's on-site inspections of 27 multifamily units weatherized by the subgrantee found that the work completed on 13 units was not acceptable and, thus, return visits would be required to correct various workmanship deficiencies, including window caulking as well as duct work. We accompanied TDHCA's program officers during their inspections of 16 of the 27 multifamily units and observed several examples of these deficiencies. According to TDHCA documents, officials recognized the need for multifamily weatherization training some months ago but did not require such training when TDHCA established a Weatherization Training Academy shortly after receiving Recovery Act funding. TDHCA did request DOE to provide training on multifamily units. According to TDHCA officials, after numerous requests over several months by the state, DOE agreed to sponsor a workshop on multifamily weatherization this spring. The officials said that the training is scheduled for late May 2010 in Austin.

Cost Effectiveness of WAP Activities Could Be Enhanced by Focusing on Measures with Higher Returns on Investment

A primary objective of WAP is to reduce energy consumption and the utility bills of low-income households so that these households will spend a lower percentage of their income on energy costs. To this end, program criteria require that all homes be assessed before they are weatherized to determine what weatherization measures are appropriate for installation. According to TDHCA, DOE authorizes TDHCA's subgrantees to use two primary energy assessment methodologies to determine what weatherization measures will be installed on a dwelling. The first assessment methodology—a DOE-approved Priority List—identifies cost-effective recurring measures that can be performed on any eligible home. The approved measures are grouped by 12 major categories and include measures aimed at reducing air infiltration; sealing ducts; installing attic, sidewall, and floor insulation; replacing refrigerators and water heaters; and installing sun screens on windows. The Priority List does not include replacing windows or doors but does state that a maximum of $400 can be expended on miscellaneous repairs, such as repairing windows. The Priority List also specifies two instances when a site-specific energy audit is warranted—when the home has ducting in the crawlspace or when the home is heated by a fuel other than natural gas, propane, or electricity.

The second assessment methodology involves using an energy audit tool—particularly the DOE-approved National Energy Audit Tool (NEAT)—to calculate a savings-to-investment ratio (SIR) that can, in turn, be used to measure the cost-effectiveness of weatherization measures. After physically inspecting the home, the energy auditor enters proposed weatherization measures into the computer-based audit, which then ranks the measures by SIR. The installation of weatherization measures is supposed to follow the SIR ranking, and if so, the most cost-effective measure is assumed to have been installed on the dwelling before moving to the next most cost-effective step as determined by the model. DOE WAP regulations allow any approved measure with a SIR of 1.0 or higher to be installed on a dwelling.[12] In calculating this ratio, the model estimates energy cost savings over the life of the installed measure. For example, if the cost of an installed window is $300—with an assumed useful life of 20 years and discounted energy cost savings estimated at $330 over the useful life—then the calculated SIR would be 1.1 ($330 divided by $300). The Recovery Act WAP generally requires that the cost of installing measures cannot exceed an average of $6,500 per dwelling.

At the time of our review, rather than using NEAT, 18 of the 44 subgrantees were using another energy audit tool, Texas EZ, that TDHCA says had been previously approved by DOE. According to TDHCA officials, Texas EZ and NEAT work alike in calculating SIRs, and either audit tool can be used to assess single-family dwellings, manufactured homes, and multifamily buildings containing 24 or fewer units. The officials noted, however, that Texas EZ is being phased out after all subgrantees are trained to use NEAT.

We found that the weatherization measures chosen for installation by subgrantees can vary significantly depending on whether the Priority List is followed or an energy audit is used to determine what measure will be installed on a dwelling. For example, we determined that by using the NEAT audit one subgrantee justified spending a significant amount of Recovery Act funding installing new windows and doors, even though these measures produce a relatively marginal payback in terms of reducing the energy costs of low-income recipients and are not included in the Priority List. Conversely, another subgrantee relied on the Priority List to support installing basic weatherization measures, such as measures to reduce air infiltration and increase attic and wall insulation that offered much greater energy savings for the money invested compared to the replacement of windows and doors allowed by NEAT. According to

[12] 10 C.F.R. §440.21(d).

TDHCA officials, under DOE rules, TDHCA is authorized to use either the Priority List or the NEAT model to determine what weatherization measures to install. However, based on a comparison of these two approaches, it appears that if TDHCA emphasized the use of the Priority List whenever possible, more cost-effective savings would be provided to low-income WAP recipients. Simply stated, funds spent on costly weatherization measures that offer relatively marginal energy cost reductions decrease the amount of assistance that is available for other, less-costly measures, and reduce the number of low-income people who can be served with Recovery Act funds.

We reviewed the energy assessments and weatherization measures installed by a large WAP subgrantee—Sheltering Arms Senior Services, Inc., located in Houston, Texas. According to Sheltering Arms officials, they customarily complete a NEAT audit on all dwellings as part of the assessment of a dwelling and the results of the audit are used to determine what measures will be installed on a dwelling. We inspected 16 apartments weatherized by the subgrantee and found that a NEAT audit was completed on each apartment. We also found that the exterior windows and doors were replaced on all apartments. These measures were selected based on the results of the NEAT audits. The SIRs for the replacement of windows varied from a low of 1.3 to a high of 1.7. Specific SIRs were not calculated for the doors. However, the doors were replaced even though TDHCA's *Texas Weatherization Field Guide*[13] indicates that the cost of new doors rarely can be justified unless they are in extremely poor condition. In the case files, we found no documentation of the doors' condition. A few additional weatherization measures were also installed on these apartments, but the installation of the windows and doors accounted for 70 percent of the $37,000 spent weatherizing the 16 apartments. The average cost to weatherize the relatively small apartments (ranging from about 360 to just over 1,000 square feet) was slightly more than $2,300; of this amount, the cost for new windows and doors averaged almost $1,600 per unit. The results of air infiltration tests conducted on several of these units during our visit also raise doubts about the cost effectiveness of these weatherization measures. These tests indicated that more air was leaking from 2 of the 16 apartments after the windows and doors were installed than before the weatherization work was done. In

[13]Texas Department of Housing and Community Affairs, *Texas Weatherization Field Guide* (Austin, Tex.: 2004). The guide outlines the procedures covering several areas, including the energy efficiency of existing homes. The guide also includes measures used by weatherization assessors and crews.

two other cases, air infiltration was essentially unchanged. Achieving sufficient energy-cost savings to recoup the investment in these cases is questionable.

In contrast, officials at a second WAP subgrantee—the City of Houston—told us they follow the DOE-approved Priority List because it directs the installation of cost-effective weatherization measures that immediately result in lower energy costs for the people receiving assistance. An energy audit tool is not used because, in the opinion of the Houston officials, using such an audit requires more time and cost than simply following the Priority List. And, city officials said using the Priority List allows the installation of basic weatherization measures, such as weather stripping, caulking, and adding attic and wall insulation, which are more cost effective in reducing energy costs than replacing windows and doors. We reviewed the client files for 11 single-family homes weatherized by this subgrantee and found that no windows or doors were installed; instead, many of the basic weatherization measures contained on the Priority List were installed. Because neither NEAT nor another energy audit tool was used in completing the assessments on these 11 homes, there were no corresponding SIRs for the weatherization measures that were installed. We did, however, corroborate the Houston officials' opinion that the measures installed on these homes are more cost effective than the windows and doors installed by Sheltering Arms. That is, we reviewed the results of energy audits completed by another subgrantee that installed several of the weatherization measures that were installed on the 11 homes in Houston. Examples of these measures and the corresponding SIRs show that miscellaneous air infiltration measures as simple as caulking and sealing around windows, doors, and cracks provided SIRs that ranged from 6.0 to 14.9; installing additional attic insulation provided SIRs ranging from 4.6 to 17.8; and making minor repairs and installing door sweeps provided SIRs that ranged from 2.6 to 3.5.

We also found that the Houston officials' opinion on not replacing windows and doors is supported by the *Texas Weatherization Field Guide*. The field guide states that with the exception of broken glass or missing window panes (we observed no documentation to this effect in the case files at Sheltering Arms) windows are rarely a major source of air leakage. Consequently, the field guide calls for replacing windows only when the window is missing or damaged beyond repair. Similarly, the field guide states that door replacement is rarely a cost-effective energy conservation measure and that a door should be replaced as an emergency repair only when the door is damaged beyond repair. We discussed this apparent conflict between the NEAT audit and the field guide with TDHCA officials, who told us that an energy audit is used to determine which weatherization measures can be installed based on the calculated SIR, and the field guide provides best practices in conducting weatherization services.

TDHCA has no empirical data for assessing whether energy savings are being achieved as a result of the installed weatherization measures. For each unit being weatherized, energy consumption data are obtained for 12 months before the measures are installed, but there is no requirement for collecting energy consumption data after installation. According to TDHCA officials, such collection is not required by DOE. One subgrantee we visited, the City of Houston, is collecting actual energy consumption data to measure the level of savings being achieved after the weatherization measures were installed. Houston staff told us that the city's partnership with the local utility made the process for collecting and analyzing the data relatively simple and that information on real world savings was very useful. Measuring the actual savings being achieved by a program aimed at reducing energy consumption seems sensible. TDHCA said it is not required by DOE to collect such data. However, by comparing energy consumption data for the different approaches, we believe that TDHCA could better determine what weatherization measures provide the highest cost savings for the low-income individuals served and the highest return on program funds invested. Studies performed by the Oak Ridge National Laboratory[14] and others[15] confirm the need for collecting energy consumption data before and after the installation of weatherization measures in order to facilitate analyses of program effectiveness. Also, according to the April 2008 Oak Ridge National Laboratory study, energy audit models can often over-predict energy savings from individual measures, which can sometimes lead to recommending measures that are not cost effective. This study also noted that if installation of non-cost-effective measures was avoided, less money would be spent on each house

[14]Oak Ridge National Laboratory, *Texas Field Experiment: Performance of the Weatherization Assistance Program in Hot-Climate, Low-Income Homes*, ORNL/CON-499, April 2008; and *Estimating the National Effects of the U.S. Department of Energy's Weatherization Assistance Program with State-Level Data: A Metaevaluation Using Studies from 1993 to 2005*, ORNL/CON-493, September 2005.

[15]Proceedings of the Tenth Symposium on Improving Building Systems in Hot and Humid Climates, (Fort Worth, Tex.: May 13-14, 1996), *Data Quality Requirements for Determining Energy Savings in the Weatherization Assistance Program (WAP)*, paper presented by representatives of Texas A&M University's Energy Systems Laboratory and TDHCA's Energy Assistance Section.

weatherized, more houses would be weatherized, and WAP's cost effectiveness would increase. Based on these collective considerations and in the interest of maximizing the impact of WAP funds, we think it may be useful for TDHCA to consider issuing guidance to its subgrantees that highlights the merits of the approach used by the City of Houston for determining what weatherization measures are to be installed through the program.

TDHCA Generally Has Internal Controls in Place, but Some Refinements Could Be Considered

TDHCA has internal controls for WAP to help ensure that Recovery Act funds are spent according to program objectives and the state's 44 subgrantees are adequately monitored. Specifically, TDHCA has procedures and controls aimed at ensuring that (1) weatherization assistance is limited to eligible households, (2) only appropriate work is undertaken at eligible homes, and (3) all work is completed and inspected before payments are made. Further, TDHCA plans to monitor internal control implementation by subgrantees. Nonetheless, several potential refinements for enhancing internal controls and monitoring have been identified in reviews conducted by TDHCA's Internal Audit Division and us.

TDHCA's System of Internal Controls and Monitoring

TDHCA—in its accountability guidance for the WAP's use of Recovery Act funds—has specified various internal controls that subgrantees are required to implement. The internal controls are based on DOE requirements and include the following:

- Before any weatherization work is undertaken, the subgrantee is to determine the applicant's eligibility by verifying the applicant's income and assessing the applicant's energy bills. Each client file is to include documentation, such as an earnings statement or a letter from the Social Security Administration, establishing that the applicant's annual income does not exceed the eligibility requirement (200 percent of the poverty level). Regarding income verification, under current guidance, an applicant may report income for a single 30-day period—which the subgrantee can project to determine whether the applicant meets annual income limits.[16]

- After eligibility is established, the applicant's dwelling is to be assessed to identify appropriate weatherization measures. The assessment is to

[16] Applicants are also commonly referred to as being "clients" of the subgrantee.

be based on either DOE's Priority List of pre-approved measures or an energy audit tool (DOE's NEAT or Texas EZ). If an energy audit tool is used, each of the prospective weatherization measures for the dwelling is to be ranked based on SIRs, and the higher-scoring improvements are to be initiated first.[17] Documentation supporting the basis for the weatherization measures undertaken must be included in the client's file and available for independent review by TDHCA.

- After the weatherization work is completed on the dwelling and before the contractor is paid, the subgrantee is responsible for inspecting the dwelling to ensure that all agreed-upon work was completed appropriately. The subgrantee is to maintain a record of the inspection—a certification form signed by the inspector.

Regarding statewide monitoring of WAP-related Recovery Act funds, DOE requires that every subgrantee be visited by the respective state's oversight agency at least once annually. Also, in conjunction with the annual visits, DOE requires the state oversight agency to review subgrantee records and client files, as well as inspect at least 5 percent of the completed units or units in the process of being weatherized.

TDHCA has reported that it intends to exceed the minimum monitoring requirements established by DOE. In April 2009, TDHCA submitted its initial WAP plan to DOE. The plan stated that TDHCA would visit each subgrantee at least annually and review a minimum of 10 percent of the units weatherized and 10 percent of the client files. More recently, in March 2010, TDHCA submitted a revised plan, which expands the goal of monitoring visits to at least four times annually but reduces the percentage of file review and unit inspections to align with the DOE requirement of at least 5 percent inspection coverage.

TDHCA Internal Audit and Our Reviews Identify Possible Enhancements

In December 2009, in light of the large infusion of Recovery Act funds for WAP, TDHCA's Internal Audit Division initiated a review of the agency's monitoring process. Among other objectives, the review focused on determining whether TDHCA's monitors have sufficient resources, support, and training to effectively monitor WAP. On April 27, 2010, the Internal Audit Division issued its report to the Governing Board and Audit Committee members of TDHCA. The report concluded that the monitoring

[17] As mentioned previously, under WAP guidelines, any prospective weatherization improvement with a SIR score of 1.0 or higher is eligible to be installed at a dwelling.

process is well-designed and comprehensive, but enhancements can be made to increase efficiency and communicate results more timely.

Program officers in TDHCA's Community Affairs Division are responsible for monitoring subgrantees' compliance with WAP requirements. In February 2010, we accompanied a team of program officers during a monitoring visit to a subgrantee in Houston—Sheltering Arms Senior Services, Inc., a nonprofit entity providing services for residents of Harris County.[18] The Community Affairs Division's resulting report, dated April 12, 2010, listed various deficiencies. For example, the report noted that 33 of the 53 units inspected by the division's program officers had workmanship deficiencies. Also, regarding required documentation, the report noted that the subgrantee's client files for 18 of the units did not have a certification of final inspection signature page. To correct the various deficiencies, the division's report specified actions to be implemented by the subgrantee.

Our on-site work also included visiting (in March 2010) two additional subgrantees. One of these, the Alamo Area Council of Governments (AACOG), has many years of WAP-related experience in the City of San Antonio, Bexar County, and 11 other counties—experience that long predates the Recovery Act. The other subgrantee, the City of Houston, is new to the program. Our review found that AACOG's client files contained all relevant documentation. In contrast, the City of Houston's client files had deficiencies. Specifically, our review of 11 randomly selected client files found that 9 files had no post-work certification form signed by an inspector.[19] Also, although the other 2 files did contain a certification form, we found that the form was signed by the contractor that performed the weatherization work rather than by the subgrantee's inspector. In response to our findings, the subgrantee stated that corrective actions would be taken. Subsequently, for example, the subgrantee told us that communication problems between contractors and post-work inspectors have been addressed and the case file management process has been streamlined. More broadly, although not projectable to other locations, our findings suggest that TDHCA may wish to consider adjusting the

[18]The team also included one staff member from TDHCA's Internal Audit Division.

[19]We randomly selected 11 files from the total of 24 files. At the time of our visit in March 2010, the subgrantee reported that weatherization work had been completed on 24 dwellings.

department's monitoring plan to provide comparatively more focus on the WAP's 11 new subgrantees relative to the 33 experienced subgrantees.

Finally, during our on-site reviews of the two subgrantees, we noted that TDHCA allows an applicant to report income for only a 30-day period, which then can be projected by the subgrantee to determine whether the applicant meets annual income limits. We did not test the potential implications of this approach. However, in March 2010, New Jersey's state auditor reported that a similar approach used in that state—projecting annual income from as little as a 30-day period—led to ineligible individuals being approved.[20] The audit report noted, for example, 12 instances where applicants with household incomes over $100,000 in 2008 were approved because they did not provide their annual income. Given the findings in New Jersey, TDHCA may wish to consider whether eligibility controls in Texas should be tightened to reduce the risk of similar problems.

TDHCA Has Not Set Certification or Minimal Training Standards for Weatherization Workers but Has Established a Training Academy to Standardize Training

According to TDHCA officials—other than professionally required licensing typically applicable to heating, ventilating, and air conditioning or other work—TDHCA does not require that its program officers (nor subgrantees or their weatherization contractors) have a state certification or meet minimal training requirements to work on WAP projects. Under DOE regulations, TDHCA is not obligated to establish such requirements, but some states have done so.[21] DOE officials told us that the department is working to develop a nationwide certification program but do not anticipate it being ready for implementation this year. Because of the significant increase in WAP funding and the number of homes to be weatherized, TDHCA decided to use about $5.5 million in Recovery Act funding to develop a training curriculum for weatherization work and establish a Training and Technical Assistance Academy (Training Academy). Certification of workers was not included as part of the Training Academy, largely because Recovery Act funds represent a one-time expansion of the existing program, and TDHCA officials considered it

[20]New Jersey State Legislature, Office of Legislative Services, Office of the State Auditor, *Department of Community Affairs American Recovery and Reinvestment Act Weatherization Assistance Program Eligibility* (Trenton, N.J.: March 26, 2010). The audit report covered the period April 1, 2009, to December 4, 2009.

[21]However, DOE requires all states to include a training and technical assistance plan in their application for weatherization funds. 10 C.F.R. § 440.12(b)(7).

imprudent to establish certification requirements without certainty of an ongoing funding source. If sufficient funds are available from DOE in the future, TDHCA officials indicated that the agency may consider pursuing a certification requirement for weatherization workers.

In October 2009, TDHCA contracted with ACS State & Local Solutions, Inc., to establish a Training Academy offering a range of weatherization/energy-efficiency and administrative instruction through a combination of classroom teaching, online instruction, and field work. Regarding design curriculum for the Training Academy, officials explained that the contract required development (in cooperation with TDHCA) of coursework that includes classes on basic weatherization and advanced weatherization. For example, the basic course is to include instructions on the principles of energy, building science, inspection and diagnostics, and energy audit; and the advanced weatherization course is to include instruction on the flow of building heat, air leakage and sealing, insulation, hazardous materials, health and safety, consumer energy education, weatherizing manufactured housing, and follow-up and maintenance of installed weatherization measures. According to TDHCA, the Training Academy also teaches a lead safety course. As of May 3, 2010, TDHCA reported that the Training Academy had provided WAP-related training to 909 students—which includes employees of TDHCA, subgrantees, and subcontractors. TDHCA officials said that, while not mandatory, the department also sponsors other training courses and conferences throughout the year directly related to WAP.

The Training Academy does not teach a course on the new Davis-Bacon requirements placed on WAP by the Recovery Act. However, according to TDHCA officials, Davis-Bacon training was intentionally kept separate from the Training Academy. The officials explained that TDHCA and the U.S. Department of Labor jointly conducted four training sessions on Davis-Bacon requirements in November 2009. We reviewed TDHCA documentation confirming that the four training sessions were held in Dallas, El Paso, Houston, and San Antonio. Also, TDHCA officials said that each subgrantee was required by TDHCA to attend a one-on-one preconstruction conference with TDHCA Davis-Bacon staff.

Finally, TDHCA has not required the Training Academy to develop or teach a course on weatherizing multifamily units. The need for such training is likely to increase since TDHCA's accelerated pace for WAP will be reliant on increased subgrantee attention to weatherizing multifamily units. TDHCA and subgrantees have little experience weatherizing these types of dwellings and, according to TDHCA, many subgrantees are reluctant to take on multifamily projects because the subgrantees are fearful of the complications that could be associated with doing so. In recognition of the need for training, TDHCA says it has requested that DOE provide comprehensive multifamily units weatherization training for Texas. According to TDHCA officials, DOE agreed to sponsor a workshop this spring. The officials said that the training is scheduled for late May 2010 in Austin and they will include such training in the Training Academy's course offerings.

Clean Water and Drinking Water Programs: Texas Met the Deadline for Having Recovery Act Funds under Contract and Has a System in Place to Help Ensure Accountability

The state of Texas received $180.9 million in Recovery Act funding for the state's Clean Water State Revolving Fund[22] and $160.7 million in Recovery Act funding for the Drinking Water State Revolving Fund. The base Clean Water and Drinking Water SRF programs, established in 1987 and 1996 respectively, provide states and local communities independent and permanent sources of subsidized financial assistance, such as low or no-interest loans for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations. According to officials, TWDB established a solicitation and ranking process and met the Recovery Act requirement to have Recovery Act-funded SRF projects under contract by February 17, 2010. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects. State officials said that they encountered a challenge awarding the funds because the Environmental Protection Agency (EPA) did not provide clear and timely guidance on qualifying "green reserve" projects—that is, green infrastructure,[23] water or energy efficiency, or other environmentally innovative activities. According to EPA and TWDB, multiple oversight and monitoring efforts, both within TWDB and by EPA auditors and program staff, are underway or planned to ensure accountability for use of Recovery Act funds by subrecipients.

[22]Of the $180.9 million in Recovery Act funding for the Clean Water SRF, $179.1 million went to TWDB, and $1.8 million went to the Texas Commission on Environmental Quality.

[23]Green infrastructure clean water projects include projects such as bioretention, green roofs, and the preservation and restoration of natural landscape features like floodplains. Green infrastructure drinking water projects include projects such as wet weather management systems, green roofs, and porous pavement at drinking water facilities.

Texas Water Development Board Established a Solicitation and Ranking Process for Recovery Act Projects and Met the Deadline to Have Funds under Contract

As part of its routine annual process, TWDB began the solicitation process for potential Recovery Act projects in October 2008, before the act passed. TWDB sent a solicitation to eligible entities across Texas, such as wastewater and water systems. In response, TWDB reported that it received funding requests that totaled $3.3 billion for Clean Water SRF projects and $3.4 billion for Drinking Water SRF projects. To give priority to shovel-ready projects, TWDB first grouped the applications by construction start dates by month and, within each month, TWDB ranked the projects by water quality score.[24] Then, TWDB ranked the projects by the Recovery Act requirement that at least 50 percent of the act's funding for SRF projects be awarded in the form of additional subsidization[25] and 20 percent of the funding be awarded to support green reserve projects. In some instances, the additional subsidization and the green reserve requirements resulted in projects with otherwise higher priority (based on construction start dates and water quality scores) not receiving Recovery Act funding.

According to TWDB officials, the construction bids received for both the Clean Water SRF projects and the Drinking Water SRF projects were lower than the anticipated project costs. Specifically, the officials reported that the average construction bid for Clean Water SRF projects was 89 percent of the applicant's engineering cost estimate within the original commitment amounts, and the average construction bid for Drinking Water SRF projects was 79 percent of the applicant's engineering cost estimate. TWDB officials explained that—to mitigate the risk of not meeting the February 17, 2010, deadline and having to return funding to EPA—the state invited additional applicants (termed "provisional applicants") to apply.[26] As a result of the lower-than-expected construction

[24]Water quality scores for clean water projects are determined by TWDB based on criteria such as the need for improved wastewater treatment, extension of service to unserved communities, and the need to address judicial and agency compliance orders. Water quality scores for drinking water projects are determined by the Texas Commission on Environmental Quality and TWDB, and are based on criteria, such as total health and compliance factors, total physical deficiencies, and affordability.

[25]In March 2009, TWDB adopted a policy that the additional subsidization would be made available to those entities that meet existing SRF program eligibility requirements as disadvantaged communities and that the additional subsidization would be offered in the form of a grant. Disadvantaged community status takes into account factors such as adjusted median household income and household costs.

[26]According to TWDB, those provisional applicants not needed to assist in meeting Recovery Act goals were to be funded from the 2010 Clean Water or Drinking Water SRF Intended Use Plan.

bids, contracts were awarded below applicant cost estimates and TWDB reported that $22 million was made available for additional Clean Water SRF projects and $42 million for additional Drinking Water SRF projects. With these freed-up funds, TWDB awarded funding to two provisional applicants for Clean Water SRF projects and eight provisional applicants for Drinking Water SRF projects.

TWDB successfully met the Recovery Act's deadline (February 17, 2010) to get projects under contract. In total, TWDB selected 46 projects to receive Recovery Act funding—21 Clean Water SRF projects and 25 Drinking Water SRF projects.

Texas Expects Several Benefits from Funded Projects

State and local officials cited various benefits from projects funded by the Recovery Act, such as decreased water loss and improved water quality. Clean Water SRF projects and Drinking Water SRF projects will benefit multiple entities because Recovery Act funding is dispersed across Texas. The amounts of Recovery Act funding awarded to projects range from $305,000 for a solar-powered machine to reduce taste and odor problems in a Greenville drinking water green project to $48 million for upgrading a water treatment plant and replacing waterline pipes in Laredo. According to Laredo Utilities Department officials, the upgrade of the Jefferson Water Treatment Plant and the replacement of waterline pipes will improve water quality, decrease water loss and energy costs, and enable the plant to function during power outages. In addition, officials from the Texas Commission on Environmental Quality (TCEQ) stated that the Recovery Act-funded improvements will help to address repeated problems with one of the city's water treatment plants operating beyond its capacity.[27] According to TCEQ, the City of Laredo was subject to state enforcement actions in 2009 due to noncompliance associated with these operational problems.[28]

A $31.8 million Clean Water SRF project in Austin is also expected to have environmental and financial benefits. Austin Water Utility received funding from TWDB in the form of a zero-interest loan for improvements to the

[27]The Texas Commission on Environmental Quality is the environmental agency for the state of Texas and oversees water quality.

[28]In 2009, the Jefferson Water Treatment Plant was the subject of 14 violations, such as insufficient monitoring of turbidity and filter processes, out-of-date plans, and deficient capacity. As of February 2010, TCEQ officials told us that all violations (except those related to deficient capacity) against the City of Laredo were addressed and closed.

Hornsby Bend Biosolids Management Plant, which treats and converts sludge produced by the city's wastewater treatment plants into a reusable resource known as "Dillo Dirt," a nutrient-rich soil conditioner used across the city on lawns, gardens, parks, golf courses, and other areas. The Recovery Act-funded improvements to the Hornsby Bend Biosolids Management Plant constitute the largest green project in Texas. Austin Water Utility officials commented that the plant improvements will generate multiple environmental benefits, including a reduction in diesel fuel use by 30,000 gallons per year, a decrease in off-site land application, and a reduction in greenhouse gases. In addition, the officials cited the financial benefits of the Clean Water SRF interest-free loan, which generates cost savings for the City of Austin. Furthermore, the Austin Water Utility officials commented that—in the absence of Recovery Act funding—any improvements to the Hornsby Bend Biosolids Management Plant likely would have been made in a piecemeal fashion and would have cost the city more.

Green Reserve Project Requirement Presented Challenges, Particularly for Drinking Water Projects

TWDB officials stated that meeting the 20 percent green reserve requirement for use of Recovery Act funds was particularly difficult for the Drinking Water SRF program. At the time of TWDB's solicitation in October 2008, the Recovery Act was yet to be enacted. Thus, the specific provisions of the prospective act were unknown, and according to officials, TWDB's solicitation did not include a call for green Drinking Water SRF projects. Subsequently, TWDB coordinated with EPA Region 6 and concluded that a specific solicitation for green reserve Drinking Water projects was necessary.[29] TWDB officials explained that, following the May 2009 resolicitation, they worked with EPA Region 6, EPA contractors, and potential subrecipients to identify drinking water projects that could potentially qualify as green and, then, to develop business cases for those projects. According to TWDB's Recovery Act Director, the initial guidance from EPA lacked clear criteria as to which projects could qualify as green. For instance, the guidance was unclear regarding whether the replacement of leaking waterline pipes would qualify. Also, both TWDB and EPA Region 6 officials commented that differences existed across EPA regions in implementing the green reserve criteria. For example, EPA Region 6 officials said that their regional office reviewed all business cases for green reserve projects to determine whether they qualified as green or not, but other EPA regions allowed states to make these determinations. In

[29]EPA Region 6 serves Arkansas, Louisiana, New Mexico, Oklahoma, and Texas, as well as the Tribal lands located within the region.

February 2010, EPA's Office of Inspector General issued a report that recognized the need for more definitive guidance.[30]

Despite the various challenges, TWDB reported that it met the 20 percent green reserve project requirement, with 16 of the state's 25 Drinking Water SRF projects containing a green component.[31]

Various Oversight and Monitoring Efforts to Ensure Accountability Are Under Way or Planned

The EPA Office of Inspector General (OIG) is inspecting Recovery Act-funded Clean Water and Drinking Water SRF projects. The purpose of these visits is to determine compliance with selected requirements of the Recovery Act, such as the Buy American provision, and the Davis-Bacon wage-setting requirements. According to the EPA OIG, as of May 1, 2010, site reviews have been initiated in 5 of the 10 EPA Regions. In addition, the EPA OIG plans to conduct a performance audit of states' oversight of Clean Water SRF Recovery Act-funded projects. The OIG selected Texas and two other states to include in this review. According to the OIG, the scope of the work in Texas, planned for spring 2010, will include a review of applicable contracts and related files as well as on-site visits by engineers.

EPA Region 6, which oversees Texas's SRF programs, reported that it is conducting performance reviews as part of its programmatic oversight. EPA Region 6 plans to conduct two Recovery Act performance reviews in federal fiscal year 2010, one midyear review and one end-of-year review. As part of each performance review, EPA Region 6 plans to conduct four project file reviews. According to EPA Region 6 officials, they visited Texas in March 2010, which satisfied the federal fiscal midyear review.

Also, TWDB officials told us that the agency has various oversight and monitoring efforts underway or planned for Recovery Act projects in Texas. The officials reported that, among other efforts, inspection and field support staff are to visit subrecipients at every site once every month, at a minimum. For example, the officials said TWDB staff conducted a site

[30]U.S. Environmental Protection Agency, Office of Inspector General, *EPA Needs Definitive Guidance for Recovery Act and Future Green Reserve Projects*, Report No. 10-R-0057 (Washington, D.C.: Feb. 1, 2010).

[31]Of the 21 Clean Water SRF projects that were selected by TWDB to receive Recovery Act funding, 7 contained either a green component or were fully categorized as a green reserve project.

visit in March 2010 to the Drinking Water SRF Recovery Act project in the City of Mission. According to TWDB, the inspection showed that the progress of construction was reasonable; however, the inspection also found that labor wage determination signage was not displayed at the site. Further, the TWDB officials stated that engineers are to make on-site visits to each Recovery Act project within an upcoming 6-month period. Also, the officials said that TWDB was in the process of hiring a contractor to inspect all Recovery Act-funded projects to detect and prevent fraud, waste, and abuse.

Moreover, TWDB reported that it conducted training sessions for subrecipients of Recovery Act funding and also developed a handbook to help ensure compliance with requirements.[32] The training sessions and handbook offer guidance on subrecipient responsibilities and related topics such as Buy American and Davis-Bacon requirements, accounting system, and monthly reporting requirements. For example, TWDB officials described the recipient reporting process as centralized at the state level, with subrecipients being responsible for providing updates monthly to TWDB. Based on construction schedules for SRF projects in Texas, TWDB officials anticipate that the reported number of jobs funded with Recovery Act dollars will peak during September to December 2010.

Housing Agencies in Texas Met the Deadline for Obligating Recovery Act Funds; Oversight Efforts to Monitor Expenditures Are Ongoing

Of the 415 public housing agencies in Texas, 351 collectively received $119.8 million in Public Housing Capital Fund formula grants under the Recovery Act. These grant funds were provided to the agencies to improve the physical condition of their properties. As of March 17, 2010, the recipient public housing agencies had obligated all of the $119.8 million. Also, 308 of the recipient agencies had drawn down a cumulative total of $55.0 million from the obligated funds, as of May 1, 2010.

[32]Texas Water Development Board, *ARRA Handbook: Guidance for Subrecipients* (Austin, Tex.: December 2009).

Meeting the Deadline for Obligating Funds Was Achieved through Collaborative Efforts

HUD and the recipient public housing agencies collaborated to achieve 100 percent obligation of the Recovery Act funds in Texas by the March 17 deadline. The two HUD program offices that we contacted in Texas (the Fort Worth Regional Office and the San Antonio Field Office) reported that they hosted training sessions for the public housing agencies under their respective jurisdictions that received Recovery Act funding—training that covered procurement policy and other Recovery Act requirements.[33] Also, as another broadly applicable type of assistance or outreach to help public housing agencies meet the March 17 deadline, the HUD offices used standardized checklists to conduct reviews of all public housing agencies within their respective jurisdictions.[34] According to HUD, all public housing agencies received a remote review, and some of the agencies also received an on-site review.[35] For example, the San Antonio Field Office reported completing

- both a remote review and an on-site review for each of the six troubled housing agencies within its jurisdiction by July 2009;[36] and
- a remote review of all nontroubled housing agencies within its jurisdiction by December 2009, and an on-site review of 15 of these agencies by February 2010.

[33]The Fort Worth Regional Office reported that 219 public housing agencies within its jurisdiction received Recovery Act funding, and the San Antonio Field Office reported that 88 public housing agencies within its jurisdiction received funding.

[34]The standardized checklists are designed specifically to facilitate review of Recovery Act implementation by addressing grant initiation and approval procedures, procurement policy requirements, and other relevant topics. Further, following the March 17 obligation date, the HUD program offices we contacted anticipate using similarly standardized checklists (modified as applicable) for monitoring public housing agencies' expenditures of Recovery Act funds.

[35]As the name implies, an on-site review is conducted at the location of the public housing agency. In contrast, a remote review is conducted at a HUD field office. In conducting a remote review, HUD field office personnel examine information that has been provided by the public housing agency. Such information includes, for example, copies of newly adopted or revised policy documents, funding data and contracting actions, and audit reports. According to HUD, remote monitoring can identify issues, problems, or concerns and also help determine the necessity for an on-site review.

[36]HUD developed the Public Housing Assessment System to evaluate the overall condition of housing agencies and to measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of housing agencies' public housing programs. Housing agencies that are deficient in one or more of these areas are designated as troubled performers by HUD and are statutorily subject to increased monitoring.

Further, officials at the two HUD program offices reported that—as the March 17 deadline approached—their staffs conducted weekly conference calls with housing agencies to discuss Recovery Act-related questions and obtain updates on the obligation status of funds. Moreover, the officials noted that continuing outreach was made by telephone and e-mail or in person, with one-on-one technical assistance provided to housing agencies, as needed.

We visited four public housing agencies in Texas. Table 1 lists the agencies, the amount of funds awarded, and the planned use of the funds.

Table 1: Recovery Act Public Housing Capital Fund Formula Grants in Texas—Planned Use of Funds by Four Public Housing Agencies

Public housing agency and total funds awarded	Planned use of funds
San Antonio Housing Authority (SAHA) $14,557,802	• Comprehensive modernization improvements to Lewis Chatham Apartments (119 units), an elderly and disabled community. • Upgrades to elevator, fire alarm, and security systems at 5 elderly communities. • Safety and sustainability repairs and improvements to playgrounds in public housing family communities. • Various site and system repairs and replacements, including sliding glass doors; roofing; fencing; cabinets; and heating, ventilation, and air-conditioning (HVAC) systems.
Housing Authority of the City of El Paso (HACEP) $12,715,540	• Roofing and HVAC systems replacements in 15 communities. • Water and wastewater line replacements in 2 communities. • Windows replacements in 2 communities.
McKinney Housing Authority $343,674	• Windows and roofing replacements at various sites.
Ferris Housing Authority $57,868[a]	• Windows and sewer lines replacements, bathroom renovations, and drainage work.

Source: GAO summary of HUD and public housing agencies' data.

[a]Ferris Housing Authority had expended its funds as of June 2009 for the planned improvements, as we noted in our July 2009 report (GAO-09-580).

The four agencies acknowledged the variety and extent of the assistance and outreach efforts provided by HUD. One of the housing agencies—the San Antonio Housing Authority (SAHA)[37] —asked for assistance from HUD's San Antonio Field Office in preparing a request for a Buy American

[37]Of the hundreds of public housing agencies in Texas, SAHA received the highest amount ($14.6 million) of Public Housing Capital Fund formula grants awarded under the Recovery Act.

waiver.[38] Specifically, SAHA wanted permission to purchase a specialized heating, ventilating, and air conditioning system manufactured in Japan. The request was based on an engineering consultant's recommendation that cited energy-efficiency and maintenance considerations as well as market research that found no domestic manufacturer of the specialized system. In November 2009, SAHA submitted the request to HUD's San Antonio Field Office. HUD's Assistant Secretary for Public and Indian Housing responded in December that the request was "well supported by the appropriate documentation" and granted SAHA a waiver.[39]

In early March 2010—before the impending March 17 obligation deadline for Recovery Act funds—the Housing Authority of the City of El Paso (HACEP)[40] had obligated 27 percent of the $12.7 million received. HACEP officials explained that they had postponed awarding contracts and decided to resolicit proposals for roofing work after receiving bids that HACEP considered to be inflated. The officials added that in arriving at this decision, HACEP and HUD Fort Worth Regional Office officials had frequent discussions about the need to meet the obligation deadline. The HACEP officials further explained that the resolicitation was issued with an outreach beyond the immediate El Paso area. This management effort, according to the officials, resulted in substantial cost savings that allowed HACEP to fund additional improvements to properties—while still meeting the March 17th obligation date.

Officials at the HUD offices and the public housing agencies we contacted commented that staff priorities and workloads were adjusted as needed to accommodate handling both Recovery Act and regular public housing capital grant funds. HUD officials cited forming new teams with existing resources to handle Recovery Act demands and continue regular capital fund grant management activities. Similarly, housing agency officials cited adjusting their resources to ensure meeting the Recovery Act's obligation date while continuing to obligate regular capital grant funds. For example,

[38]Section 1605(a) of the Recovery Act states that, "None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States."

[39]According to HUD's Fort Worth Regional Office, the waiver approved for SAHA is unique; that is, there have been no other waiver requests from public housing agencies in the region.

[40]HACEP received the second highest amount ($12.7 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act.

by shifting priorities and increasing their workloads, two of the four housing agencies reported that they met the Recovery Act's deadline (March 17, 2010)—and also had obligated over 50 percent of their fiscal year 2009 regular capital grant funds as of February 28, 2010, or about 19 months before the funds must be obligated.[41] As of March 31, 2010—about 6 months into the 2-year time frame for obligating fiscal year 2009 regular capital grant funds—the other two housing agencies reported that they had obligated no regular funds but had met the Recovery Act's obligation deadline.

None of the four public housing agencies that we contacted expressed difficulty meeting HUD's requirements for the use of capital grant funds, such as the requirement for priority consideration to low- and very low-income persons and the businesses that employ them when creating opportunities using the funds.[42] However, a McKinney Housing Authority official stated that the agency has few staff, which—coupled with the shortened time frames for obligating and expending Recovery Act funds—presented concerns in deciding whether to start projects. Also, a Ferris Housing Authority official—one member of the agency's two-person staff—said that reporting requirements have been burdensome. The official stated that although his agency obligated its Recovery Act funds early on, the agency has had to submit several reports on matters such as the number of jobs created and/or retained. Another agency, SAHA, commented that complying with the Recovery Act's Buy American provision presented some challenges. However, as previously discussed, SAHA requested a waiver for one renovation project; and, with assistance from HUD's San Antonio Field Office, the waiver was granted.

[41]Under 42 U.S.C. § 1437g(j), public housing agencies must generally obligate 100 percent of their funds within 2 years of the date the funds are made available.

[42]Section 3 is a provision of the Housing and Urban Development Act of 1968 that helps foster local economic development, neighborhood economic improvement, and individual self-sufficiency. Among other requirements under this provision, housing agencies are to meet goals including (1) 30 percent of the aggregate number of new hires shall be Section 3 residents (low and very low-income persons residing in the community in which HUD funds are spent regardless of race and gender), (2) 10 percent of all covered construction contracts shall be awarded to Section 3 business concerns (businesses that substantially employ low and very low-income persons residing in the community in which HUD funds are spent), and (3) 3 percent of all covered non-construction contracts shall be awarded to Section 3 business concerns.

Various Entities Are Responsible for Monitoring Expenditures

Oversight responsibilities for monitoring expenditures of Public Housing Capital Fund formula grants awarded under the Recovery Act involve various entities—particularly HUD's Office of Inspector General and HUD's program office for public housing. In 2009, HUD's Office of Inspector General (Region VI) conducted Recovery Act-related capacity audits of two public housing agencies in Texas—the Dallas Housing Authority and the Travis County Housing Authority.[43] The Office of Inspector General reported that the Dallas Housing Authority demonstrated the capacity to administer its grant in accordance with requirements.[44] In contrast, the Office of Inspector General reported that the Travis County Housing Authority lacked the capacity to administer Recovery Act funds.[45] Among other considerations, the Office of Inspector General recommended that HUD's San Antonio Field Office increase monitoring and oversight of the Travis County Housing Authority's financial and program activities.

As of March 31, 2010, the Office of Inspector General reported that it had no other ongoing or planned capacity audits in Texas regarding Public Housing Capital Fund grants awarded under the Recovery Act.

However, public housing program officials in HUD's Fort Worth Regional Office and San Antonio Field Office plan to continue monitoring public housing agencies' use of Recovery Act funds by, among other means, conducting remote and on-site reviews. As noted previously, these reviews are to include use of standardized checklists, modified as applicable to focus on the appropriateness of expenditures. The officials explained that the reviews are to determine if the public housing agencies are complying with Recovery Act procurement policy and related requirements and are disbursing and expending funds for approved activities. More specifically, according to HUD's monitoring and oversight guidance, the local program offices are to review disbursements and expenditures for a minimum of 25 percent of the total Recovery Act grant for each non-troubled public

[43]A capacity audit is a limited scope review to determine whether a grantee's administrative systems are capable of effectively administering a large influx of Recovery Act funds—that is, to determine whether the public housing authority has the capacity to properly account for Recovery Act funding and the controls to ensure those funds are expended only for eligible program activities.

[44]HUD, Office of Inspector General, Region VI, Audit Report Number 2010-FW-1001, issued December 18, 2009.

[45]HUD, Office of Inspector General, Region VI, Audit Report Number 2009-FW-1801, issued August 17, 2009.

housing agency, including at least one construction/modernization contract.[46] Also, for public housing agencies categorized as "troubled," the guidance provides for additional monitoring and oversight by HUD field offices as deemed necessary to ensure proper use of Recovery Act funds.

The public housing agencies that receive Recovery Act funds are to ensure that the funds are used appropriately, particularly when negotiating contracts and monitoring the performance of contractors. Through their procurement processes and procedures, these agencies are to directly oversee the commitment and disbursement of Recovery Act funds. SAHA, which received the largest amount ($14.6 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act, plans to use more than $6 million of the funds to modernize a 119-unit apartment complex (Lewis Chatham Apartments) for elderly and disabled residents. In March 2010, we visited San Antonio to observe the status of ongoing renovations at the Lewis Chatham project; and, at SAHA, we reviewed contracts and related documents. According to SAHA officials, the renovation work at the Lewis Chatham project was being procured through competitive bidding processes. We previously visited the Lewis Chatham modernization project in May and October 2009, as discussed in our December 2009 report.[47] The report noted that—in the wake of federal bribery-related indictments in June 2009 against several employees[48]—SAHA had taken measures to strengthen internal controls. Among other actions taken, officials explained that SAHA revised its Procurement Policy and Procedures manual in August 2009 to assign specific responsibilities to department directors.[49] According to officials, the

[46]HUD defines a construction/modernization contract as one that includes a commitment of funds for contract labor and/or materials; and, the contract should be a non-services contract in which activities relate to construction, modernization, and/or demolition.

[47]GAO-10-232SP.

[48]U.S. Department of Justice, U.S. Attorney's Office, Western District of Texas, press release (June 18, 2009), "Five San Antonio Housing Authority Employees Charged in Federal Bribery-Related Indictments." The press release noted that an indictment is a formal accusation of criminal conduct, not evidence of guilt, and that the defendants are presumed innocent unless and until convicted through due process of law. As of April 2010, U.S. District Court (Western District of Texas) records showed that one of the defendants had pled guilty and that the other four defendants were awaiting trial.

[49]More recently, on January 5, 2010, SAHA revised the manual for Recovery Act purposes to require a file retention time frame of 3 years; that is, records are to be retained for a period of 3 years after final payment and all matters pertaining to the applicable contract are closed.

revised manual stipulates that each department director is responsible for establishing quality control mechanisms for procurement activities within the respective department.

Officials further explained that the manual also specifies that the Chief Financial Officer is responsible for the oversight of all procurement activity within SAHA. At our request, the Chief Financial Officer provided us documentation of control activities conducted by SAHA's Facilities and Construction Services Department, which manages projects funded by the Recovery Act. For construction contracts, the documented control activities include a series of check-and-balance steps before payments are made to contractors. During our March 2010 visit to SAHA, department staff walked us through a demonstration of how the various steps operate.

Regarding the number of jobs funded with Recovery Act Capital Fund formula grant dollars, in April 2010, SAHA reported 29.05 full-time equivalents into FederalReporting.gov. To help ensure accuracy in job reporting, SAHA officials said that the agency requires its contractors to use a standardized instrument for submitting hours worked on Recovery Act projects each quarter.

HACEP, which received the second highest amount ($12.7 million) of Public Housing Capital Fund formula grants awarded in Texas under the Recovery Act, is using most of its funds ($11.4 million or 90 percent) for modernization efforts that include replacing roofs, windows, HVAC systems, and water and sewer lines. In early March 2010, we visited HACEP. During our visit, we noted that a contract entered into by HACEP in November 2009—a roofing contract for $702,800—did not include a Buy American provision. However, in response to our inquiry, HACEP officials obtained confirmation from the manufacturer that the shingles being used in the project are American made. Further, the officials stated that all other contracts do contain a Buy American provision. Our review of current contracts at the time of our March 2010 visit confirmed that the provision was included. Furthermore, according to HACEP officials, all of these contracts were awarded competitively.

Use and Impact of Recovery Act Funds by State of Texas and Local Governments

As of March 28, 2010, Texas state entities had spent about $8.3 billion of the approximately $17.5 billion in Recovery Act funds awarded to the state, according to the State Comptroller's Office.[50] The amount of Recovery Act funding that has been spent varies among programs, and Texas state agencies continue to prepare for the end of Recovery Act funding. At the local government level, city officials in Austin, Dallas, and Houston reported they plan to use Recovery Act funds to expand existing programs and support new programs. However, while finding the federal funds useful in advancing specific priorities, the city officials anticipated the funds would have a limited overall impact on their ability to address growing budgetary challenges.

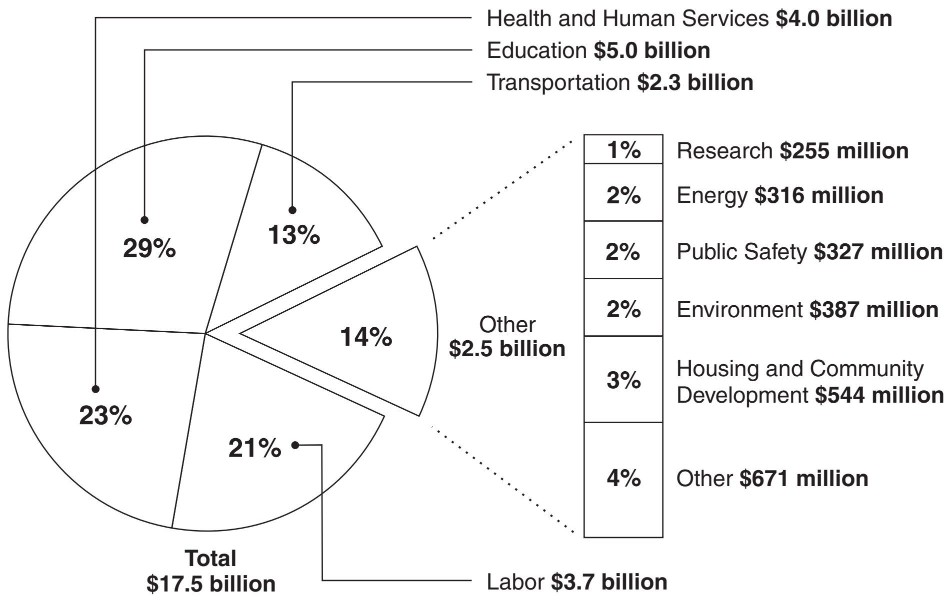
State of Texas Continues to Use Recovery Act Funds

The State Comptroller's Office reports that approximately $17.5 billion in Recovery Act funds have been awarded to Texas state entities, as of March 28, 2010.[51] The State Comptroller's Office classifies Recovery Act funding awarded to state entities into 10 categories. Each category includes multiple Recovery Act programs; for example, the housing and community development category includes the Weatherization Assistance Program as well as four other programs. As shown in figure 1, four categories—Health and Human Services, Education, Transportation, and Labor—account for about 86 percent or $15 billion of the $17.5 billion awarded to Texas state entities.

[50]The term "state entities" refers to state agencies and public institutions of higher education. According to the State Comptroller's staff, in this context the term "spent" means monies that have been sent to contractors and subrecipients, including "pass through" funding sent by a state entity to another state entity. The State Comptroller's staff also indicated the term "awarded" here means an agreement exists between a state and a federal entity to provide Recovery Act funds to the state entity.

[51]In addition to the $17.5 billion, Texas state entities reported applying for approximately $1.94 billion in Recovery Act competitive grants. As of March 28, 2010, Texas state entities had not been awarded these grants.

Figure 1: Recovery Act Funding Awarded to Texas State Agencies and Public Institutions of Higher Education by Category (as of March 28, 2010)



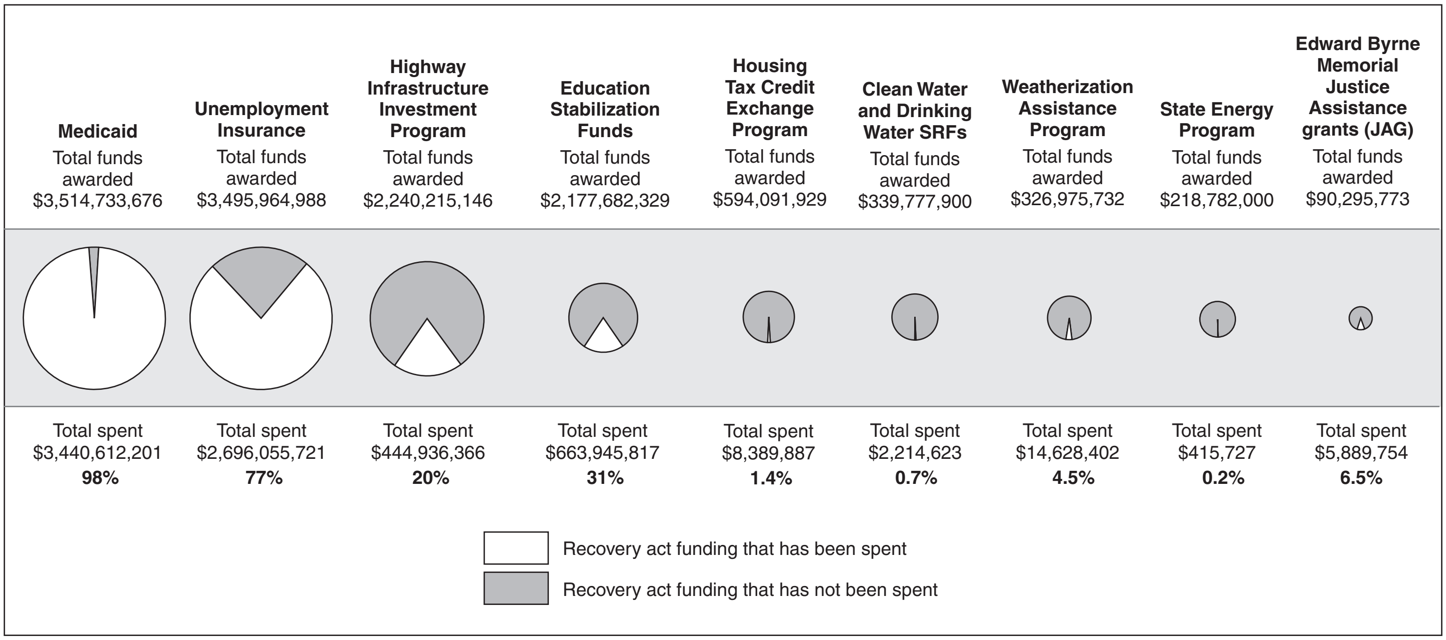
Source: State Comptroller's Office.

Notes: As reported by the State Comptroller's Office, the funding categories are based on the Catalogue of Federal Domestic Assistance, a governmentwide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public. According to the State Comptroller's Office, the funding information summarized in the figure does not reflect Recovery Act funding for local Texas governments and other non-state entities. For example, public housing agencies receive funds directly from the U.S. Department of Housing and Urban Development.

Of the $17.5 billion in Recovery Act funds, the State Comptroller's Office reported that approximately $8.3 billion (or 48 percent) have been spent, as of March 28, 2010. The Governor's office told us the state is neither accelerating nor decelerating the use of Recovery Act funds; rather, state entities determine how to utilize Recovery Act funds.

Figure 2 shows funds awarded and funds spent in nine programs that account for nearly $13 billion (or about 74 percent) of the total amount of Recovery Act funding ($17.5 billion) awarded to Texas state entities. As of March 28, 2010, the percentage of funds spent in these nine programs varied significantly.

Figure 2: Recovery Act Funding Available and Spent in Nine Selected Programs in Texas (as of March 28, 2010)



Source: State Comptroller's Office.

Officials characterized the two programs with the highest spend-out rates of Recovery Act funding as entitlement programs. For example, the Texas Health and Human Services Commission explained that Medicaid pays for health care services provided to eligible clients. The Texas Workforce Commission provided a similar explanation for unemployment insurance payments, characterizing these as entitlement payments to eligible claimants.[52] The Governor's staff explained program specific characteristics make spend out rates appear much higher for the two entitlement programs shown on figure 2 than the other programs shown on the figure. They indicated the amount of funding awarded to Texas for these programs could increase in the future, depending on demand for these programs. The Governor's staff as well as agency officials reiterated

[52]We have not reviewed unemployment insurance as part of our bimonthly reports on the Recovery Act. However in July 2009, we issued a report addressing this topic. See GAO, *Unemployment Insurance Measures Included in the American Recovery and Reinvestment Act of 2009*, GAO-09-942R (Washington, D.C.: July 27, 2009).

that Texas will continue to fund such programs as Medicaid.[53] For infrastructure-related programs, spend-out rates are determined partly by the work and timelines of contractors. Regarding the Highway Infrastructure Investment program, for example, the Texas Department of Transportation explained that contractors are paid based on the progress of projects.

We also asked the nine state agencies to describe their plans or exit strategies regarding the end of Recovery Act funding. As noted in our previous bimonthly reports, the Texas governor and legislature have advised state agencies that Recovery Act funding is temporary. In his proclamation concerning the state's budget for the 2010-2011 biennium, the governor stressed that "state agencies and organizations receiving these funds should not expect them to be renewed by the state in the next biennium." The biennium will end on August 31, 2011. The state agencies we examined responded that they are taking various actions. For example, the Texas Education Agency, which is responsible for education stabilization funds, reported that it has advised local educational agencies that Recovery Act funds should be "invested in ways that do not result in unsustainable continuing commitments after the funding expires."[54] In another case, the Office of the Governor's Criminal Justice Division reported to us that each recipient of Justice Assistance grants must acknowledge that "awards under the Recovery Act are one-time awards and that its proposed projects and deliverables are to be accomplished without additional funds." Other agencies expect to continue programs and activities. The Health and Human Services Commission reported that Texas will continue to fund the Medicaid program. Also, as part of its normal program, the Texas Department of Transportation noted that it planned to continue working on transportation projects that have been supported by the infusion of Recovery Act funds. The Governor's staff noted these two programs existed before the Recovery Act and received supplemental funding through the Recovery Act.

[53]As GAO has previously reported, Medicaid programs generally represent an entitlement under which the federal government is obligated to pay its share of expenditures for covered services provided to eligible individuals under each state's federally approved Medicaid plan.

[54]Education stabilization funds are part of the State Fiscal Stabilization Fund, which also includes government services funds used for public safety and other government services.

Texas Local Governments' Use of Recovery Act Funds

We assessed the use of Recovery Act funding for three local governments in Texas—the cities of Austin, Dallas, and Houston. Table 1 provides information about the three localities and identifies their largest Recovery Act awards. Officials in the three cities we visited cited various positive effects that Recovery Act funds are expected to have on their communities. Austin officials noted that Recovery Act funds will help reduce the city's energy demand and greenhouse gas emissions, which supports the city's commitment to being a leader in sustainability and green infrastructure. They said the Recovery Act funding enabled them to move projects forward, such as the Hornsby Bend Biosolids Management Plant clean water project. The city of Austin is also receiving a grant, Communities Putting Prevention to Work, from the Department of Health and Human Services that focuses on decreasing tobacco use.

As table 2 shows, the largest Recovery Act award to the city of Dallas is a $23 million Transportation Investment Generating Economic Recovery (TIGER) competitive grant from the Department of Transportation. The TIGER grant is to be used to start work on a project for a proposed streetcar line in downtown Dallas to improve connectivity between jobs and residents. Dallas officials also commented that public safety is the city's top priority and Recovery Act Community Oriented Policing Hiring Recovery Program (CHRP) funds helped the city hire 50 additional police officers. Houston officials noted Recovery Act grants would help expand curbside recycling and expand the city's existing weatherization assistance program.

Table 2: Use of Recovery Act Funds by Three City Governments in Texas

Locality information			Programs providing the largest amounts of Recovery Act funding[a]
Austin	Type of local government	City	• Clean Water State Revolving Fund (SRF)—($31.8 million) • Communities Putting Prevention to Work—($7.5 million) • Energy Efficiency and Conservation Block Grant—($7.5 million) • Highway Infrastructure Investment—($6.4 million) • Weatherization Assistance Program—($5.8 million)
	Population	757,193	
	Unemployment rate	7.0%	
	Operating budget	$614.9 million	
	Total Recovery Act funds[a]	$71.9 million	
Dallas	Type of local government	City	• Transportation Investment Generating Economic Recovery—($23 million) • Weatherization Assistance Program—($13.2 million) • Energy Efficiency and Conservation Block Grant—($12.8 million) • Community Oriented Policing Hiring Recovery Program (CHRP)—($8.9 million) • Edward Byrne Memorial Justice Assistance Grant—($7.1 million)
	Population	1,279,910	
	Unemployment rate	9.2%	
	Operating budget	$2 billion	
	Total Recovery Act funds[a]	$82.0 million	
Houston	Type of local government	City	• Weatherization Assistance Program—($23.4 million) • Energy Efficiency and Conservation Block Grant—($22.8 million) • Highway Infrastructure Investment—($14.5 million) • Homeless Prevention and Rapid Re-Housing Program—($12.4 million) • Community Development Block Grant—($8.1 million)
	Population	2,242,193	
	Unemployment rate	8.4%	
	Operating budget	$1.67 billion (before debt service)	
	Total Recovery Act funds[a]	$104.6 million	

Source: GAO analysis of data obtained from City of Austin; City of Dallas; City of Houston; U.S. Census Bureau; and U.S. Department of Labor, Bureau of Labor Statistics (local area unemployment statistics).

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

[a]Officials in each city (Austin, Dallas, and Houston) said that they are awaiting decisions on applications for additional Recovery Act funds.

The three local governments said they are facing growing budgetary challenges as they are awarded Recovery Act funding. In 2009, the Federal Reserve Bank of Dallas reported that the recession affected Texas later than other areas of the nation.[55] The report noted that "the Texas economy continued to expand while the nation fell into a recession." However, in the latter part of 2008, the state's economic conditions deteriorated, and the Federal Reserve Bank determined that Texas began 2009 in recession.

[55]Federal Reserve Bank of Dallas, "Recession Arrives in Texas: A Rougher Ride in 2009," in *Southwest Economy* (First Quarter 2009), 3.

In 2010, the Federal Reserve Bank reported the state's economy is improving but also noted that "consumer spending—which makes up the lion's share of Texas' economy—remains flat and may continue to constrain growth."[56] The local officials we spoke with confirmed their governments are experiencing the effects of the recession, pointing to figures showing declines in sales tax revenue. For example, according to Houston's estimate for the city's 2010 budget, sales tax revenue is expected to decrease more than 8 percent. Furthermore, officials in all three cities said that budget reductions continue to be made in response to declining revenues, such as implementing hiring freezes, eliminating raises, and reducing library hours.

City government officials commented that while helpful to furthering specific efforts, Recovery Act funds had a limited overall budgetary impact. The officials attributed the limited impact of Recovery Act funding to several factors. Specifically, the officials noted that Recovery Act funding is directed to programs outside a city's general fund and is going toward projects with one-time expenses. Further, the officials commented that the amounts of Recovery Act funds awarded are relatively small compared to the respective city's overall budget. For example, as shown in table 2, Houston was awarded approximately $104.6 million in Recovery Act funding but has an operating budget of approximately $1.67 billion. City government officials in Austin, Dallas, and Houston also noted instances in which their respective city did not receive Recovery Act funding that the city had sought. For example, Houston officials discussed several grant applications that were not selected, such as the CHRP, TIGER, and the Clean Water and Drinking Water SRFs. In summary, while identifying factors that limit the overall impact of Recovery Act funds on local budgets, officials from all three cities clearly indicated that the federal funds would have positive effects for their communities.

[56] Federal Reserve Bank of Texas, "Texas Economy Shakes Off Rough Ride in 2009," in *Southwest Economy* (First Quarter 2010), 6.

State and Local Government Efforts in Accountability for Recovery Act Funds in Texas

Texas state entities and the local governments we reviewed in Texas are taking actions to help ensure Recovery Act funds are used appropriately. The Texas State Auditor's Office (SAO) continues to review jobs and expenditure reporting under the Recovery Act. Also, SAO recently completed the Single Audit in a timelier manner than is required by federal law, thereby providing early written communication of internal control deficiencies. As described previously, state agencies continue oversight and monitoring efforts to ensure accountability for use of Recovery Act funds. The local governments we reviewed in Texas are also taking actions to monitor Recovery Act funding, including early identification of risks related to the Recovery Act.

State Auditor's Office Has a Significant Accountability Role

In reference to Texas's use of Recovery Act funds, SAO has completed one performance audit and has another performance audit ongoing. In March 2010, SAO released an audit reviewing jobs and expenditure reporting in two programs overseen by the Texas Education Agency (TEA), ESEA Title I and Individuals with Disabilities Education Act (IDEA).[57] The audit found TEA established an adequate process to ensure program expenditures and job creation information self-reported by local educational agencies was collected and included in the recipient reports required in September 2009.[58] However, audit findings point to the importance of continuing monitoring activities. The two local educational agencies the auditors visited incorrectly reported the number of jobs by 45 percent and 6 percent, respectively.[59] The auditors explained that one local educational agency did not follow TEA guidance and another used an informal process

[57]Texas State Auditor's Office, *American Recovery and Reinvestment Act Funds for Selected Programs at the Texas Education Agency*, SAO Report No. 10-024 (Austin, Tex.: March 2010).

[58]The audit report did, however, describe challenges TEA faced in developing guidance. The auditors found that TEA—from September 25, 2009, to October 1, 2009—provided inconsistent methodology for local educational agencies to use in reporting jobs. Specifically, one guidance document advised local educational agencies to calculate a baseline of the number of hours that would have been worked in the absence of Recovery Act funds, a point not mentioned in two other guidance documents. TEA and the auditors disagree on whether this was a substantial shift. However, both TEA as well as the auditors pointed to challenges resulting from federal guidance. Specifically, the audit report notes, "the U.S. Department of Education released its guidance on or about September 21, 2009. This left TEA staff just a few working days to assimilate this information, disseminate it internally, and provide it to more than 1,200 local educational agencies."

[59]The auditors visited the Pasadena Independent School District and the Alvin Independent School District.

of emails and verbal exchanges.[60] SAO also recommended TEA monitor and follow up with local educational agencies to facilitate the regular and timely draw down of Recovery Act funds to ensure all Recovery Act funds are obligated by September 30, 2011, as required by state and federal law. TEA agreed with the recommendation and reported taking a number of actions, including monitoring of local educational agencies' draw down of funds, reaching out to districts with low or no draw downs, and publicizing draw down information on the agency's Web site. The Governor's staff told us TEA does not have legal authority to require local educational agencies to spend Recovery Act funding more quickly.

Going forward, a senior official in SAO reported the office is now reviewing jobs and expenditure reporting for the Workforce Investment Act of 1998 (WIA) Programs, including Youth, Adult, and Dislocated Worker. The official said that SAO expects to release a report in summer 2010.

Recently, the auditor for the state of Texas issued the Single Audit report significantly earlier than required by federal law and, also provided earlier written communication of internal control deficiencies over compliance for state entities.[61] SAO, on February 22, 2010, issued the federal portion of the Statewide Single Audit Report for Texas's 2009 fiscal year.[62] SAO issued the report less than 6 months after Texas's fiscal year ended on

[60]The Pasadena Independent School District did not follow TEA guidance that the number of jobs should be calculated as full-time equivalents by dividing the number of funded hours into the total number of hours in a full-time schedule.

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

[62]The federal audit clearinghouse received this report on March 26, 2010. The federal audit clearinghouse operates on behalf of the Office of Management and Budget to disseminate audit information to federal agencies and the public. The Single Audit requires grantees to submit a financial reporting package, including the financial statements and the Single Audit report, to the clearinghouse no later than 9 months after the end of the grantee's fiscal year under audit.

August 31, 2009.[63] Texas's efforts are noteworthy in demonstrating that the Single Audit can be completed in less time than the requisite 9 months and can provide early warnings of deficiencies in internal control over compliance as state entities expend Recovery Act funds. In regards to timing, we recommended starting in April 2009 in our bimonthly reports that the federal Office of Management and Budget (OMB) adjust the current audit process to, among other things, provide for review of internal controls before significant Recovery Act expenditures occurred.[64] We noted that the statutory deadline to complete the Single Audit and submit a state's financial reporting package to the federal audit clearinghouse—specifically 9 months after an entity's fiscal year ends—is too late to allow the audited entity to take corrective action on internal control deficiencies before significant expenditures of Recovery Act funds. Moreover, the timing problem had been exacerbated by extensions to the 9-month deadline—extensions that have been routinely granted in past years. For example, seven states in our review of Recovery Act funds completed their fiscal year on July 1, 2008, but requested and received extensions to submit their Single Audit financial reporting packages after March 31, 2009. While OMB has recently issued guidance on March 22, 2010, which states that extensions should no longer be granted, Texas demonstrated that the Single Audit can be completed in less time than the requisite 9 months. A senior SAO official told us that Texas had been issuing its Single Audit report within 6 months of the end of its fiscal year even before the Recovery Act.[65] The official explained that the Single Audit work is done concurrently with completing the state's financial statements.[66]

We asked the SAO senior official to identify key factors that, in her view, facilitated Texas's completion of the Single Audit work as well as work on

[63]Texas budgets on a biennial basis, which consists of 2 fiscal years. Each fiscal year is September 1 through August 31 and is specified by the ending calendar year. For example, fiscal year 2009 was September 2008 through August 2009. The biennium for budget purposes runs 2 years. For example, the 2010-2011 biennium is September 1, 2009 through August 31, 2011.

[64]GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, GAO-09-580 (Washington, D.C.: April 23, 2009), 53-54.

[65]For example, the Texas State Auditor issued the Statewide Single Audit Report for fiscal year 2008 on February 20, 2009.

[66]The SAO official said a Texas statute requires the state's financial statements to be completed within 6 months of the end of the fiscal year.

the financial statements. The senior official identified two important factors:

- The State of Texas is investing significant audit resources. For the fiscal year 2009 audit, 114 members of SAO's approximately 180 audit staff worked on the audit. Moreover, SAO billed state agencies and institutions of higher education approximately $5.6 million for its work on the fiscal year 2009 audit, including financial opinion work as well as federal compliance work.[67] In addition, SAO anticipates using its own funds to pay some of the costs.

- The State of Texas has supplemented its efforts with assistance from a public accounting firm, which is essential for providing the personnel needed and a national perspective. Moreover, contracting with the public accounting firm allows SAO to do more performance audits while still fully participating in the Single Audit, which is an important role of SAO.

Texas volunteered to participate in a project that OMB sponsored. One of the goals of the project is to help achieve more timely communication of internal control deficiencies for higher-risk Recovery Act programs so that corrective action can be taken.[68] In our December 2009 national summary of the Recovery Act, we commended the states, including Texas, that elected to participate in the project.[69] We asked the SAO official how Texas's participation in this project may have facilitated the state's completion of the Single Audit report. As noted previously, the SAO official explained the Single Audit work is done concurrently with completing the state's financial statements, which must be completed within 6 months of the end of the fiscal year. Texas had been issuing its Single Audit report by this time frame, before the Recovery Act and OMB's project. The SAO official told us, however, that Texas wanted to

[67]The SAO official noted that the State Auditor's Office can bill state agencies and institutions of higher education for the cost of the audit.

[68]OMB implemented a Single Audit Internal Control Project (project) in October 2009. The project is a collaborative effort among the states receiving Recovery Act funds that volunteered to participate, their auditors, and the federal government. Under the project's guidelines, audit reports were to be presented to management 3 months sooner than the 9-month time frame required by the Single Audit Act and OMB Circular No. A-133 for Single Audits. Sixteen states, including Texas, volunteered for the project.

[69]GAO, *Recovery Act: Status of States' and Localities' Use of Funds and Efforts to Ensure Accountability*, GAO-10-231 (Washington, D.C.: December 10, 2009).

participate in the project to demonstrate its interest in accountability for federal funds as well as Recovery Act funds. On the project, SAO would like OMB to consider allowing for additional flexibility in the conduct of the work.

Texas's Single Audit report also provided early warning of potential risks to state entities as Recovery Act funds are disbursed. A SAO senior official noted the Single Audit identified a weakness in determining eligibility for three programs—Medicaid, Temporary Assistance for Needy Families, and Supplementary Nutrition Assistance Program. Texas has been awarded $3.51 billion in Recovery Act funding for Medicaid, $57.5 million for Temporary Assistance for Needy Families, and $27.8 million for the Supplementary Nutrition Assistance Program, according to March 28, 2010, data from the State Comptroller's Office. The SAO official noted that challenges in determining program eligibility existed before the Recovery Act, as the state transitioned between computer systems. Federal Inspector General officials—in reviewing Texas's Single Audit report—characterized the eligibility-determination issue as a "material weakness, a material instance of non-compliance, as well as a repeat finding." The Texas Health and Human Services Commission reported it intends to finalize a corrective action plan by May 31, 2010, including evaluating methods to monitor documentation used to support eligibility for the three programs identified above. Also, the Governor's staff reported that the Texas Health and Human Services Commission is taking additional actions, including modifying the eligibility system to ensure key documents are verified and maintained as well as developing a management plan to improve the accuracy of eligibility determinations. The Governor's staff indicated that many of these actions are to be completed by the end of calendar year 2010.

Further, we asked the SAO official to what extent the Single Audit had identified new risks related to the Recovery Act. One risk SAO expects will be addressed is the requirement that recipients, such as state agencies and subrecipients, register with the federal government's Central Contractor Registration (CCR), which is intended to provide basic information relevant to procurement and financial transactions. The Single Audit found, for example, that one state agency was unaware of this requirement and consequently did not verify food bank subrecipients had registered before providing Recovery Act funds.[70] The SAO senior official expected

[70]According to the Single Audit report, the Texas Department of Agriculture subsequently notified all food banks and had them register with CCR by September 30, 2009.

this risk to lessen as state agencies become more familiar with requirements. Consequently, Texas's timely completion of the Single Audit provides the state an opportunity to address and mitigate potential risks. As noted previously, Texas has not yet spent the majority of the Recovery Act funds awarded to state entities, as of March 28, 2010.[71]

Local Government Audit Offices Also Have a Significant Accountability Role

The local governments we reviewed also reported taking steps to safeguard Recovery Act funds. We previously reported the Dallas city auditor did a preliminary risk assessment before the city received significant amounts of Recovery Act funding. In an October 2009 report, the auditor noted the city faces increased risks because Recovery Act funds must be expended quickly, mandatory reports must be completed within short time frames, and some city departments have not previously administered grants. The auditor made a number of specific recommendations, which city management has said will be implemented. The city auditor has continued to monitor Recovery Act funding and is planning to issue reports every quarter assessing the city's efforts.[72] On April 23, 2010, the city auditor released one such quarterly audit report.[73] Of particular importance, the report noted that no "allegations of fraud, waste, and abuse" have been received by the city auditor's office.

In March 2010, a representative from the Austin city auditor's office told us that the office is planning a two-pronged approach to monitoring Recovery Act funds. The approach, according to the city auditor's office representative, focuses on (1) ensuring that departments understand the specific requirements of the Recovery Act and (2) conducting tests of specific Recovery Act projects for compliance with requirements.

Also, in April 2010, the Houston acting city auditor told us that the city is taking various actions to ensure accountability for Recovery Act funds. These actions include, for example, conducting an enterprise risk assessment to comprehensively identify risks the city's various

[71]As noted previously, the State Comptroller's staff told us "spent" means monies that have been sent to contractors and subrecipients, including "pass through" funding sent by a state entity to another state entity.

[72]The timing of the audit reports are to be based on recipient reporting required by the Recovery Act.

[73]Dallas City Auditor, *Audit of American Recovery and Reinvestment Act of 2009: January 1, 2010 to March 31, 2010* (Dallas, Tex.: April 23, 2010).

departments face. The acting city auditor noted that he had contacted counterparts in the Dallas city auditor's office to discuss risk-assessment approaches. Also, the Houston acting city auditor commented that the Single Audit is expected to provide specific coverage of Recovery Act funds. Further, to address the Recovery Act's reporting requirements, the acting city auditor said that the city has formed a committee with representation from city management and the City Controller's Audit Division.

Texas's Comments on This Summary

We provided the Governor of Texas with a draft of this appendix on May 5, 2010. A senior official (the Director of Financial Accountability) in the Office of the Governor responded on May 10, 2010. The majority of the senior official's comments relate to WAP. Generally, the senior official commented that the draft appendix did not adequately reflect Texas's view that the significant delays in the state's weatherization efforts were principally the result of DOE actions and decisions. More specifically, the senior official commented that DOE (1) denied the state's request to significantly expand the network of weatherization providers, (2) did not provide the state with required Davis-Bacon wage information for major metropolitan areas for nearly a year after passage of the Recovery Act, (3) changed reporting requirements significantly and failed to timely provide written guidance, and (4) has yet to provide multifamily weatherization training to Texas after numerous requests. To address these comments, we incorporated more specific information on Texas's efforts to work with DOE as well as DOE's perspectives on the state's progress in weatherizing units. For example, we incorporated information that according to Texas officials DOE denied the state's request to expand the network of weatherization providers. However, we also incorporated information that in April 2010 DOE reported that it had not been pleased with the state's progress in implementing the Recovery Act WAP and had constant communication and several meetings with TDHCA staff in efforts to provide additional assistance and accelerate progress. As appropriate in this appendix, we also incorporated the senior official's suggestions for technical clarifications regarding WAP and other relevant programs and activities.

In addition, we also provided a copy of applicable sections of a draft of this appendix to the City of Austin, the City of Dallas, and the City of Houston. Officials from the respective cities generally agreed with the information presented and provided technical suggestions that we incorporated where appropriate.

GAO Contacts

Lorelei St. James, (214) 777-5719 or stjamesl@gao.gov

Bob Robinson, (202) 512-5728 or robinsonra@gao.gov

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