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Report to the Congress

September 2010

RECOVERY ACT

Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds (Arizona)

GAO-10-1000SP

Appendix I: Arizona

Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act (Recovery Act)[1] spending in Arizona. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at http://www.gao.gov/recovery.

What We Did

We reviewed three specific program areas—the Weatherization Assistance Program (WAP), Energy Efficiency and Conservation Block Grants (EECBG), and public housing—funded under the Recovery Act. Our work focused on the status of the program area's funding, how funds are being used, methods used by program managers to monitor projects to ensure proper use and safeguarding of Recovery Act funds, and various issues that are specific to each program area. (For descriptions and requirements of the programs we covered, see appendix XVIII of GAO-10-1000SP.)

We selected these programs because they provided different views of Recovery Act spending in Arizona. For example, the Recovery Act provided a significant addition in WAP funding. We reviewed how this increase in funding was being managed and identified challenges the Arizona Department of Commerce (ADOC) faces in meeting spending deadlines. Furthermore, it provided an opportunity to determine the state and local procedures in place to ensure monitoring, tracking, and measurement of weatherization program success.

The EECBG program afforded us an opportunity to assess how the state is managing a program that had not received funding prior to the Recovery Act. The program provides federal grants through the Recovery Act to local governments, Indian tribes, states, and territories to reduce energy use and fossil fuel emissions, and for improvements in energy efficiency.

We revisited three public housing agencies—we previously reported on these agencies in 2009 and 2010—that received Recovery Act funds directly from the federal government to see firsthand the progress these agencies were making in expending their funds. We also visited the Department of Housing and Urban Development (HUD) Phoenix Field Office to discuss its efforts to implement their second year monitoring plan for Recovery Act funds.

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

Our work in Arizona also included monitoring the state's fiscal situation, as well as the city of Phoenix's use of Recovery Act funds. The city received nearly $400 million of Recovery Act monies and was chosen for that reason. Also, because of the significant amount of funding the Arizona Department of Education received, we followed up on the actions it is taking to monitor the use of Recovery Act funds and found that it is better prepared to monitor the funds. Further, to gain an understanding of the state's experience in meeting Recovery Act reporting requirements,[2] we examined documents prepared by and held discussions with the Governor's Office of Economic Recovery (OER) and ADOC. Finally, we spoke with OER and Office of the Auditor General officials that have oversight responsibilities for Recovery Act funds. In assessing all of these programs, we spoke with local and state officials responsible for the programs, reviewed records, and visited locations where weatherization, energy efficiency, and housing improvement activities were underway.

What We Found

- **Weatherization Assistance Program.** ADOC was awarded $57 million to weatherize an estimated 6,400 homes. The weatherization services being performed consist of a wide variety of retrofitting measures, such as improving heating and cooling systems, applying air sealing and weather stripping, and improving insulation. Currently, because the average cost to weatherize homes has been less than expected, ADOC faces challenges in expending all of its weatherization funds by the March 2012 deadline, and, if average costs remain the same, may be able to weatherize about 1,200 more homes than originally planned. ADOC is exceeding some U. S. Department of Energy (DOE) requirements for monitoring the use of Recovery Act funds and estimates that weatherization of homes in Arizona will result in up to $2.8 million in annual energy savings.

- **Energy Efficiency and Conservation Block Grants.** The State Energy Office received $9.5 million in EECBG funds and distributed the funds to 64 cities, with populations less than 35,000, as well as the 5 smallest counties in Arizona. In addition, 32 larger communities received $54.2 million and 21 tribal communities received $8.9 million in direct funding from the DOE for energy efficient programs.

[2] Recipients of Recovery Act funds are required to report quarterly on a number of measures, including the use of funds and estimates of the number of jobs created and retained. Recovery Act, div. A, § 1512. We refer to the reports required by section 1512 of the Recovery Act as recipient reports.

Recovery Act EECBG funds are being used in Arizona to finance a variety of projects, such as energy assessments and the installation of energy-saving devices and equipment. Other planned activities include retrofitting energy efficient street lighting and installing renewable energy technologies in or on government buildings.

- **Public Housing Formula and Competitive Capital Funds.** Arizona has 15 public housing agencies that have received about $12 million from the Public Housing Capital fund. To date, the agencies are expending their formula funds by the mandated deadlines. Arizona also received one Capital Fund competitive grant, which the city of Phoenix housing agency plans to combine with other funding to renovate 374 housing units. This project has faced challenges stemming from a more complex bidding process and historical preservation issues. These are potential obstacles to the city's ability to meet the September 23, 2010, obligation deadline.

- **Arizona's fiscal condition.** Recovery Act funds helped Arizona to balance its fiscal year 2011 budget by enabling the state to save the equivalent amount of approximately $815 million from its general fund. The state has enacted a budget for 2011 assuming the passage of two ballot measures in the November general election. The state legislature is awaiting the November election results before deciding on possible contingency budget solutions.

- **The City of Phoenix's use of Recovery Act funds.** The largest city in Arizona, Phoenix manages a diverse portfolio of Recovery Act funds to mainly support short-term, one-time projects in infrastructure development, energy conservation, public housing, and other areas. Phoenix has been awarded $382 million, of which 62 percent was awarded directly from federal agencies while the remaining 38 percent was awarded to state agencies that in turn passed the funds to the city. Officials said that Recovery Act funds have helped to fund jobs and are expected to yield beneficial outcomes to the city, including better infrastructure; increased services to communities, such as Early Head Start; and energy savings from energy grants.

- **Accountability.** The Arizona Auditor General released the fiscal year 2009 Single Audit[3] with audit coverage of Recovery Act expenditures from February 2009 when the Recovery Act was passed through June 2009. Only 2 of the 28 significant internal control findings that were related to federal funding awards were specific to controls over Recovery Act funds—one was a lack of maintaining documentation and the other was not having current central contractor registrations documentation prior to awarding grant money. Corrective action plans for both are in place. The OER has begun implementing its monitoring of subrecipients of Recovery Act funds, as well as providing technical assistance to state agencies on procedures to detect fraud, waste, and abuse.

Arizona is Weatherizing Homes, Showing Energy Savings, Creating Jobs, and Monitoring Use of Recovery Act Funds

The Recovery Act appropriated about $5 billion for WAP, which DOE is distributing to each of the states, the District of Columbia, seven territories, and Indian tribes, to be spent by March 31, 2012. This program enables low-income families to reduce their utility bills by making long-term, energy-efficiency improvements to their homes. This includes, for example, installing insulation or modernizing heating or air conditioning equipment. ADOC administers the WAP within the state and has been awarded about $57 million in Recovery Act funds. The department allocated about $49 million of the $57 million to 10 local service providers, which includes approximately $42 million to weatherize 6,414 homes and $7 million for administration, training and technical assistance, audits, and liability insurance. ADOC retained about $8 million for administration and initial ramp-up activities, such as training center expansion, curricula development, staff training, and equipment purchases. The local service providers identify homes that are eligible[4] to receive weatherization work and employ in-house construction crews, hire contractors, or use a combination of both approaches to make those improvements. ADOC estimates that weatherizing approximately 6,400 homes will result in as

[3]The Single Audit Act of 1984, as amended (31 U.S.C. §§ 7501-7507), requires that each state, local government, or nonprofit organization that expends at least a certain amount per year in federal awards—currently set at $500,000 by the Office of Management and Budget (OMB)—must have a Single Audit conducted for that year subject to applicable requirements, which are generally set out in OMB Circular No. A-133, *Audits of States, Local Governments and Non-profit Organizations* (revised June 27, 2003, and June 26, 2007).

[4]A household is eligible for weatherization services if it is at or below 200 percent of the federal poverty level. Priority service is given to the elderly, people with disabilities, families with children, high residential energy users, and households with a high energy burden.

much as $2.8 million in overall energy savings annually. Table 1 shows the funding allocated to each of the 10 local service providers, the projected number of homes to weatherize, the number and percent of homes weatherized, the funds spent weatherizing homes, and the average cost per home weatherized as of June 30, 2010.

Table 1: Funding Allocated to Local Service Providers, the Number and Percent of Homes Weatherized, the Funds Spent Weatherizing Homes, and Average Cost of Homes Weatherized as of June 30, 2010

Local service provider	Funding allocation[a]	Projected number of homes to weatherize	Number of homes weatherized	Percent of homes completed	Funds spent weatherizing homes	Average cost per home weatherized
Maricopa County Human Services Department, Community Service Division	$11,911,987	1,600	333	21	$1,654,835	$4,969
Northern Arizona Council of Governments	7,500,359	987	283	29	1,290,062	4,559
City of Phoenix Neighborhood Services Department	7,222,865	951	430	45	2,779,532	6,464
Western Arizona Council of Governments	5,911,442	768	187	24	1,122,302	6,002
Tucson Urban League, Inc.	4,749,363	612	107	17	526,132	4,917
Southeastern Arizona Community Action Program	4,654,446	597	304	51	1,510,280	4,968
Community Action Human Resource Agency	2,269,618	273	66	24	234,145	3,548
Gila County Community Action Program	1,744,457	202	61	30	491,927	8,064
Pima County, Community Development and Neighborhood Conservation Department	1,705,544	197	42	21	224,632	5,348
Mesa Community Action Network	1,750,512	227	117	52	871,344	7,447
Total	**$49,420,593**	**6,414**	**1,930**	**30**	**$10,705,191**	**$5,547**

Source: GAO analysis of ADOC data.

[a]This total includes about $41.6 million for program operations and $4.9 million for training and technical assistance; the remainder is for administration, audit, and liability insurance that was allocated among the local service providers (numbers rounded).

Although $57 million was awarded to Arizona, DOE limited each state's access to 50 percent of these funds—or $28.5 million for Arizona—until 30 percent of the homes to be weatherized had been completed and other requirements had been met.[5] According to ADOC officials, as of June 30, 2010, the state had weatherized 1,930 homes, about 30 percent, which qualified it for obtaining the balance of its funding award from DOE. On August 6, 2010, ADOC notified DOE that it could access the remaining $28.5 million.

Although ADOC has qualified for the remainder of its funding allocation, it still faces some challenges in weatherizing its projected number of homes and expending weatherization funds by the March 2012 deadline. A key factor that is affecting the weatherization plan is the statewide average cost per home weatherized. Arizona estimated expending a statewide average of about $6,500 per home in Recovery Act weatherization funds, which is the maximum average amount permitted by statute. However, statewide, local service providers are spending an average of approximately $5,500—or about $1,000 less per home—because (1) the extent of work required is less than estimated; (2) some work is done with funds leveraged from other sources, such as rebates from utility companies; and (3) to a lesser extent, some contractors are able to buy smaller items in bulk that translates to lower per unit costs. If local service providers continue to achieve these savings, ADOC will weatherize its 6,414 homes as planned with only about $36 million. ADOC estimates that, if the average costs remain, it may be able to weatherize an additional 1,218 homes with the remainder of the $42 million it allocated for weatherization program operations.

ADOC officials recognize that increasing the number of homes weatherized can be a challenge for some local service providers. For example, some providers (1) awarded contracts to firms who do not want to add temporary staff to increase their existing workload and (2) have difficulties finding additional contractors who are qualified and willing to do the work. For example, Tucson Urban League officials informed us that contractors were deterred from doing weatherization work because they had to bear the cost of obtaining the training and certification to do this

[5]DOE requires that recipients complete weatherizing 30 percent of the homes identified in their weatherization plans and meet other requirements, namely, fulfilling the monitoring and inspection protocols established in its weatherization plan; monitoring each of its local agencies at least once each year to determine compliance with administrative, fiscal, and state policies and guidelines; ensuring that local quality controls are in place; inspecting at least 5 percent of completed units during the course of the respective year; and submitting timely and accurate progress reports to DOE, and monitoring reviews to confirm acceptable performance.

work.[6] The officials also believed that there were not enough contractors available in the community that could aid them in increasing their monthly rate of homes completed. This poses a real challenge for the Tucson Urban League because its average monthly rate has been about 12 homes per month from October 2009 through June 2010, and it would have to weatherize an average of about 33 homes per month to expend all of its funds by the deadline. ADOC officials said that they will closely monitor completion rates of all of the local service providers and, if necessary, will reallocate funds from those who are struggling to meet their goal to those who are capable of meeting their goal and taking on additional work. The officials said that ADOC will make these reallocation decisions in the next 8 to 10 months.

Weatherization Efforts Expect to Achieve At Least $2.8 million in Energy Savings and are Creating Jobs

One of WAP's goals is to reduce energy consumption and utility bills for low-income households. To measure the impact in Arizona, ADOC calculates an estimated kilowatt hour (kWh) usage reduction and utility cost savings resulting from the weatherization work performed on homes. As of June 25, 2010, ADOC estimates that the WAP Recovery Act weatherization services have resulted in a usage reduction of 2.4 million kWh and approximately $267,000 in savings for the residents of the 1,930 homes that have been weatherized. ADOC estimates the weatherization work on the original plan covering approximately 6,414 homes statewide will result in as much as $2.8 million in overall energy savings annually.[7] If Arizona is able to weatherize the additional 1,200 homes, it estimates total energy savings to be about $3.3 million. In addition to these estimates, ADOC will calculate the actual energy and utility cost savings achieved for the residents by comparing monthly utility bills for a 1-year period prior to the weatherization work to an 18-month period after the work is completed.

[6]As we previously reported, in Arizona, Building Performance Institute (BPI) certification is recommended, but not required to be a weatherization technician, monitor, or inspector. BPI certified professionals diagnose, evaluate, and optimize the critical performance factors of a building that can impact health, safety, comfort, energy efficiency, and durability. GAO, *Recovery Act: Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be Fully Addressed (Appendixes)*, GAO-09-1017SP (Washington, D.C.: Sept. 23, 2009).

[7]This estimate is based on an April 2010 Oak Ridge National Laboratory study of average annual savings of $437 per home.

The weatherization services being performed consist of a wide variety of retrofitting measures, such as improving heating and cooling systems, applying air sealing and weather stripping, and improving insulation. Local service providers determine which measures to install in a home by diagnostic testing, visual inspection, and practical considerations. Health and safety inspections are also conducted to ensure that installing efficiency measures will not jeopardize the occupants or their home.[8] In part, federal requirements limiting the amount of money that can be spent on residences have helped to ensure that only the most cost-effective measures are included in the upgrade of a particular home. The residents in three homes we visited informed us that they experienced balanced temperatures in their homes and improved effectiveness of their heating and cooling systems. Some also reported that the contractors had instructed them on steps they could take to reduce their energy consumption, such as installing compact fluorescent light bulbs and unplugging small appliances when not in use.

Arizona officials report that the WAP also has had a positive impact on creating jobs in Arizona. The Recovery Act significantly increased the funding and the number of homes being weatherized compared to the DOE weatherization program prior to the Recovery Act. As a result, all 10 local service providers awarded contracts to firms to perform their weatherization work in addition to their in-house crews, which some agencies have also expanded. For example, one local service provider awarded contracts to eight general contractors, and increased from two in-house crews to six in order to meet the increased workload demand resulting from the Recovery Act. According to ADOC officials, because of the temporary nature of the Recovery Act funds, some contractors have expressed a reluctance to submit bids for weatherization work because they would need to hire additional staff and pay for training and start-up costs if awarded contracts. ADOC said that they have been working to educate contractors about other energy retrofit opportunities—such as other DOE-funded programs or Arizona's utility company rebate

[8]For example, at one home we visited, the resident said that prior to the weatherization work, the gas-powered furnace in the home did not function properly and the occupants often experienced headaches, dizziness, and nausea or vomiting during the winter. The health and safety inspection revealed that the furnace had been leaking carbon monoxide into the home, sickening the family. Sealing the home's air leaks to increase energy efficiency would have trapped the carbon monoxide in the home, putting the residents at increased risk. The local service provider replaced the furnace with an energy efficient and safe unit.

program—that they would be competitive for with trained and certified staff.

State Agency Monitoring Actions Meet or Exceed DOE Requirements

DOE requires state weatherization agencies—ADOC in Arizona—to (1) visit each local service provider at least once a year to inspect the local service provider's management of funds and the completion of weatherized homes and to review records and client files, (2) inspect at least 5 percent of the weatherized homes, and (3) ensure that each local service provider inspects all of the completed homes they weatherize. ADOC officials reported that they are meeting all and exceeding some of the DOE requirements.

- Instead of once a year, ADOC officials said their monitors have been visiting each of the 10 local service providers at least once a month. ADOC officials said that they will conduct more frequent on-site monitoring of local service providers who are struggling to achieve their completion rates to determine what is causing the problem and to assist them in addressing those challenges.

- ADOC has inspected approximately 8.5 percent of the weatherized homes to date, which exceeds the DOE 5 percent requirement.[9] These site visits are conducted at various stages of job completion—at initial audit, during installation of the weatherization measures, and after completion. Both ADOC and local service provider monitors can use these on-site inspections to provide feedback to the contractors on weatherization activities the monitors observed. For example, we observed an ADOC monitor on a home visit informing the contractor of a method that could be used in the future for installing additional ductwork that would improve the air flow into the room and the energy efficiency of the air conditioning system.

- ADOC officials said that their monitors address the DOE requirement to ensure that each local service provider inspects all weatherized homes by conducting desk audits on 100 percent of all weatherization

[9]As we previously reported in September 2009, the state has established its own goal of inspecting at least 20 percent of weatherized homes, and ADOC officials said they still plan to reach that goal. According to these officials, they have not yet been able to meet this 20 percent goal for several reasons. These reasons include the slow start in using Recovery Act weatherization funds because of the delay in receiving the Davis-Bacon wage determinations, the need to hire and train the ADOC monitors, and the monitors' focus on assisting the local service providers in ways to increase their weatherization numbers.

jobs using its Web-based audit tool. ADOC requires each local service provider, at the end of each month, to enter information into its database documenting that final inspections have been performed on each home completed during that month. The ADOC monitors (1) review all of this data to ensure that the local service providers have documented whether final inspections have been performed and (2) provide a monthly report to each local service provider showing the results of these reviews. ADOC officials stated that these reviews, in combination with the site visits and home inspections, provide ADOC with assurances that local service providers are inspecting all of the homes they complete.

Knowledge Sharing and Planning

The 10 community service organizations that have historically provided weatherization services in Arizona have a peer to peer information exchange, which currently meets quarterly. The agencies discuss topics such as workload demands; requirements of the Recovery Act, such as Davis-Bacon and Buy American issues; and how they plan to meet weatherization targets. About 15 years ago, this group developed the Southwest Building Science Training Center, with which ADOC has partnered to train the number of weatherization contractors and auditors required to meet the Recovery Act weatherization goals for Arizona.

EECBGs Help Make it Possible For Arizona Communities to Undertake New Energy-Saving Programs

The EECBG program, funded for the first time by the Recovery Act, funds programs that reduce fossil fuel emissions in an environmentally sustainable manner, reduce the total energy use of the eligible entities, and improve energy efficiency in transportation, construction, and other sectors. Arizona grant recipients received a total of $72.6 million in EECBG funds and many of its cities and counties are using these funds to assess the energy efficiency of public buildings, install energy-saving devices and equipment, and partner with the private sector to leverage funds for increased potential effectiveness.

Arizona cities, counties, and tribal communities received EECBG funds in two ways: some received funds directly by formula from DOE and others received funds through the ADOC's State Energy Office. Specifically, 32 cities received $54.2 million directly from DOE for energy efficiency programs, and 21 tribal communities received $8.9 million for this purpose. In addition, the State Energy Office received $9.5 million from DOE, which it largely distributed to 64 cities with populations less than 35,000, as well as the 5 smallest counties in Arizona, to help those localities reduce greenhouse gases and promote energy efficiency in their jurisdictions.

The EECBG grant program requires that states pass through a minimum of 60 percent of the funds they receive to communities with smaller populations that were not eligible for direct grants from DOE. Officials from the State Energy Office said that it exceeded this requirement and has passed more than 80 percent of its EECBG allocation (more than $7.6 million) to 64 cities, as well as 5 counties in order to get as much money to the cities and counties for energy efficiency improvements as possible. The State Energy Office is using the remainder of the funds (about $2 million) for administration, reporting, and technical assistance, including providing services such as monitoring and reporting of projects, providing program guidance, and encouraging networking to facilitate smaller communities' receipt and use of funds and to take advantage of additional funding sources.

EECBG Opens Doors to Additional Energy Project Funds

Nonfederal financial assistance is sometimes made available for improved energy-efficiency projects, but only after communities have made some investment on their own. For example, the State Energy Office officials said that the Arizona Public Service, the state's largest utility company has, since 2006, offered its commercial and governmental customers incentives which reimburse these customers for up to 30 percent of the cost of implementing energy efficiency programs. Localities apply for the utility company incentives in advance of the project and are paid back over a number of years. According to the State Energy Office, these incentives have, in the past, largely gone unclaimed, in part because localities have not been able to afford energy-efficiency projects.

The fact that EECBG provides funding for energy-efficiency projects that would otherwise not be affordable for some communities also opens the door to these potential funding sources. When the State Energy Office distributed EECBG money to localities, the office was making the localities aware of the incentives, encouraging them to apply, and helping them to complete the applications. Because communities are still ramping up their EECBG activities, there are currently no data on the number and amount of incentives that have already been claimed. However, according to State Energy Office staff, communities' proposals for energy work submitted to the State Energy Office show that about $1.9 million in additional incentives may be claimed.

EECBG Grants in Arizona Are Funding a Variety of New Energy Projects Designed to Save Energy

Under Arizona's EECBG program, localities are using funds to finance a variety of projects such as energy assessments and the installation of energy-saving devices and equipment. We visited two localities receiving EECBG funds, the cities of Casa Grande and Phoenix. The city of Casa Grande, which received about $164,000 in direct EECBG funding from DOE, had completed the first of its EECBG projects, an energy assessment, and was gearing up to complete the second project, the installation of solar lights in three city parks, at the time of our review. The energy assessment has provided the city with baseline data on energy consumption, energy costs, and the type of energy consumed in 30 of the city's buildings. The assessment suggested ways for the city to save energy in each of the buildings (see figure 1), such as replacing windows and aging air conditioning units, and the baseline data allow the city to determine exactly how much energy savings can be attained by implementing each of the energy-saving measures.

Figure 1: Example of Energy Savings Proposed by Casa Grande Energy Assessment

ENERGY AUDIT
REPORT

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Brief description of ECM	Initial Investment	Annual Savings	Payback Period (yrs)
Install Variable Frequency Drives (VFD) for Cooling Tower	$12,500	$4,727	2.64
Replace Inefficient Cooling Plant (chiller)	$124,900	$11,850	10.54
Install Occupational Sensors for Interior Lighting	Maintenance	Varies	Varies
LED Retrofit kits	$1,783	$138.77	12.85
City Hall Annex Building			
Replace Existing Roof-mounted Gas Package Unit With Energy Efficient	$57,113	TBD	TBD
Replacing T12 Lamps With T8's and Replace Magnetic Ballast with Electronic Ballast	$22,710	$1,500	15.14
Install Occupational Sensors for Interior Lighting	Maintenance	Varies	Varies
LED Retrofit kits	Maintenance	TBD	TBD
Dave White Park			
Install Occupational Sensors for Interior Lighting	$728	Varies	Varies
Install CFL Bulbs where not present	$148	$100	1.48
Replace all exterior lighting	TBD	TBD	TBD
Dorothy Powell			
Install Occupational Sensors for Interior Lighting	$320	Varies	Varies
Thermostats were not programmed for setback times	Maintenance	varies	<1
Move cooler condensers to exterior location	$5,000	Varies	Varies
LED Exit Sign conversion kits	$549	42.71	12.85
Facilities Maintenance Shop			
Install Additional Occupational Sensors for Interior Lighting	$1,001	Varies	Varies
Replace gas package units with higher efficiency units	$18,825	$1,998	9.4
Replace T-12 fixtures and ballasts with T-8 fluorescent bulb fixtures throughout facility	$6,012	$375	16
Fire Station #1			
Install occupational sensors for interior lighting	$728	Varies	Varies
Install programmable thermostats	$273	Varies	Varies
Retrofit incandescent fixtures with CFL bulbs	$28	$38	0.74
Replace gas package units with higher efficiency units.	$18,825	$2,253	8.4
Replace exterior incandescent flood lights with HPS wall packs	$4,008	$328	12.2
Replace T-12 fixtures and ballasts with T-8 fluorescent bulb fixtures	$7,656	$622	12.3
Replace through-wall air conditioners with higher efficiency units	$1,524	$204	7.49
Fire Station #2			
Install occupational sensors for interior lighting	$546	Varies	Varies
Install programmable thermostats	$182	Varies	Varies

Source: City of Casa Grande.

Casa Grande officials said that they are planning on implementing the energy-savings techniques outlined in the energy assessment. The EECBG grant represents the first federal monies that Casa Grande has ever received to do energy-efficiency work, and, according to city officials, because of budget constraints, they could not have implemented these programs without the Recovery Act funds. For example, the solar lights Casa Grande will install in city parks will provide increased safety, along with energy savings, according to city officials. Because Casa Grande currently lacks the electrical infrastructure to accommodate street lighting around the parks, adding traditional lights to these areas would be cost prohibitive.

The city of Phoenix received $15.2 million in a direct EECBG formula grant to be used for a variety of projects, including making municipal buildings more energy efficient and funding the conversion of traffic signals from traditional lights to more energy-efficient LED lights (see table 2 for a complete list of Phoenix EECBG projects). Phoenix officials said that one of the first projects Phoenix completed when the city received its EECBG formula grant was an energy audit using a tool provided by Environmental Protection Agency (EPA), which allowed them to establish a baseline for the energy usage in city buildings. Also, officials said that Phoenix used EECBG administrative funds to pay for the time spent on setting up and tracking the results of the EPA tool. This energy audit will be followed up by another audit beginning in September 2010, which will be conducted by an energy service company that will identify energy conservation measures and implement energy-efficient retrofits. Officials said that the contract for the energy audit will be finalized and work will begin in late September 2010. The type of energy audit the city is contracting for, called an investment grade audit, includes a contractor guarantee that the city will realize a specific energy savings when the energy-efficiency measures are implemented. If Phoenix does not realize the promised energy savings after implementing the projects the contractor recommends, the city will be able to recoup the difference between the savings the contractor guaranteed and the actual savings.

Table 2: Description, Costs, and Time Frames of Phoenix Direct EECBG Formula Grants

Project	Estimated cost	Date completed or planned to be completed
Energy Efficiency and Conservation Strategy	$24,000	June 2009
Energy Audit	191,500	March, 2010 (benchmarking), May-June 2012 (outreach)
Municipal building energy efficiency and solar energy	11,600,000	June-July 2010
LED traffic signal conversions	2,700,000	November-December 2011
Traffic signal optimization program	80,000	May-June 2012
Phoenix energy rebate program	700,000	August 2012
Total	**$15,295,500**	

Source: GAO analysis of city of Phoenix documentation.

Monitoring Varies Among the Three Grant Recipients We Visited

The State Energy Office has five staff members assigned to work on ensuring the EECBG formula grants are monitored closely, according to officials from that office. Three of those employees are each assigned to a region of the state and travel to all cities and counties in the region that received EECBG funds through the State Energy office to provide assistance with localities' reporting requirements, as well as to conduct on-site inspections of the EECBG projects. State Energy Office officials have made preliminary visits to localities receiving EECBG funds from the State Energy Office to determine planned EECBG activities, but as of August 2010 projects were not far enough along for monitors to determine compliance with EECBG guidelines.

For those localities receiving EECBG funding through the State Energy Office, the office has created a database that includes all relevant grant information about the localities' specific EECBG projects, including the type of project, the amount of the grant, and reporting information. This database allows the State Energy Office to monitor all relevant grant information and is another device that the office uses to track the grant dollars spent and to ensure that the Recovery Act funds are being used in accordance with DOE's guidance. The EECBG database also helps the State Energy Office prepare quarterly recipient reports. Officials said that they use the database to gather the appropriate reporting information, including monies spent and the number of staff hours charged to each EECBG project to determine the number of full-time equivalent employees that cities and counties receiving EECBG funds through the State Energy Office are using on localities' EECBG projects. State energy officials said that they have not experienced any difficulties in reporting these data to the federal government and do not anticipate any problems moving forward.

All EECBG grants require the localities that receive those grants to initially pay for the projects and submit receipts to the State Energy Office for reimbursement. As a result, the State Energy Office has no trouble in tracking the funds for EECBG, according to officials from that office.

When we first met with State Energy Office officials in June 2010, they had not developed a monitoring plan for EECBG funds. Subsequent to our visit, the office created a monitoring plan so those responsible for overseeing those grants that pass through the office would collect timely, consistent information on EECBG grant expenditures. The plan calls for the collection of information about contracts, including Davis-Bacon and Buy American provisions, benchmarks of current energy usage, and the project's budget. Because many of the projects are just underway, officials said that they have not yet used the monitoring plan, but intend for the plan to provide consistent assessment across all localities that receive pass-through EECBG funding from the State Energy Office.

Casa Grande city officials have assigned a specific grant number to their EECBG funds and said that they can track all expenses separately through this number. They said that since their EECBG funds will only be used for two projects, they do not see the need for a more formal monitoring plan. The city has completed one round of recipient reporting, and city officials told us that because of the system they have in place—tracking all expenses and employees through the EECBG grant—they have had no problems with reporting and are not anticipating any problems in the future.

Phoenix officials are in the process of developing a written monitoring plan and intend to base it on a risk-assessment evaluation of their contracts and give priority to those they determine to be high risk for financial loss. Phoenix has created a separate account for each EECBG grant and each project has a separate project number or a cost center where the expenditures are booked and tracked. The project manager for each EECBG project can access information, including individual invoices, at any time and determine how much of each project's funding has been spent. In addition to financial oversight, Phoenix city management reviews the progress and status of all Recovery Act grants monthly. Because Phoenix had received Recovery Act grants prior to their EECBG grant, they had experience in recipient reporting. As a result, city officials said that they have not experienced any difficulty in submitting their recipient reports and are not anticipating having problems in the future.

Housing Agencies Are Meeting Formula Grant Expenditure Deadlines but Arizona Faces Challenges in Obligating Competitive Grant Funds

The Recovery Act provided the U.S. Department of Housing and Urban Development (HUD) with $3 billion to allocate through the Public Housing Capital Fund to public housing agencies following the same formula for amounts made available in fiscal year 2008, prior to the act. The Recovery Act formula funds were allocated to 3,134 public housing agencies nationwide, which were to obligate all of their funds by March 17, 2010. The Recovery Act also provided HUD with nearly $1 billion to award to public housing agencies based on a competition for priority investments, including investments that leverage private sector funding or financing for renovations and energy conservation retrofitting.

Of the 25 public housing agencies in Arizona, 15 collectively received $12.1 million in Public Housing Capital Fund formula grants under the Recovery Act to improve the physical condition of their properties. HUD awarded only one Capital Fund competitive grant in Arizona, which was to the Phoenix Housing Department for $3.4 million under the category of creating energy-efficient public housing units.

Housing Agencies Are Expending Their Formula Funds by the Mandated Deadlines

The Recovery Act required that housing agencies obligate 100 percent of their formula grant funds within 1 year of when the funds became available to them. According to officials in the HUD field office, all Arizona housing agencies met the March 17, 2010, obligation deadline. The Recovery Act also required that housing agencies expend 60 percent of their formula grant funds within 2 years from when the funds became available and expend 100 percent of their funds within 3 years. As of August 7, 2010, 13 of the 15 agencies receiving funding had already expended at least 60 percent of their Recovery Act formula grant funds—more than 7 months before the March 17, 2011, deadline. Of the remaining two housing agencies, one had expended 59 percent of its Recovery Act funds and the other had expended 32 percent of its funds. Further, 6 of the 13 agencies had expended 100 percent of their funds. In total, agencies had expended nearly $8.7 million as of August 7, 2010.

During our review, we followed up on two housing authorities we had previously visited—Flagstaff and South Tucson—to see firsthand the progress these agencies were making in expending their funds. In Flagstaff, officials have expended all Recovery Act formula funds and completed their Recovery Act projects, which included window, appliance, and furnace replacements. As of August 7, 2010, the housing agency in South Tucson had expended 86 percent of its Recovery Act funds for its contract to reroof all of the city's public housing units and install three boilers in its two apartment buildings for seniors and disabled individuals. The roofing project was completed in August 2010, and housing agency officials estimated the new boilers would be installed by September 2010 (see figure 2).

Figure 2: Reroofing Work in Progress on South Tucson Apartment Building for Seniors

Work in progress on South Tucson apartment building for seniors, Casa de Bernie Sedley, (left photo) and completed project (right photo).

Source: South Tucson Housing Authority.

The Phoenix Housing Agency Received a Competitive Grant and Faces Challenges in Obligating its Funds

Phoenix housing officials plan to combine their $3.4 million competitive grant award with other funds to renovate 374 units at the Marcos de Niza public housing site, which was built in the 1940s and 1950s. Total development costs for this project are estimated at $20.7 million, and Recovery Act funding will be used to cover predevelopment costs and some construction costs for 281 of the units. Other funding sources include bonds, low income housing tax credits, and other non-Recovery Act formula capital funds. We first reported in December 2009 approximate total development costs of $24.7 million for this project.[10] A Phoenix official said that the initial estimate was revised after the costs and scope of the project were reduced due to changing financial market conditions. As of August 7, 2010, the housing agency had obligated approximately $1.4 million of the Recovery Act funds and had expended $944,364.

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

Officials in the HUD field office said that the housing agency has faced some challenges in meeting its September 23, 2010, obligation deadline.[11] According to a housing authority official, its mixed financing approach and use of tax credits have created a more complex contract bid process. Additionally, addressing historic preservation issues has delayed the bid process and has resulted in the city modifying some of its original plans for the project. For example, the agency cannot apply insulation and stucco to the building exteriors or add second floors to some units. As a result, housing agency officials have had to develop alternative renovation plans. Furthermore, the agency was still in the process of obtaining all HUD approvals for the mixed-financing proposal, including applying portions of the competitive grant funding to the project's construction costs. Although challenging, city officials said that they expected to meet the obligation deadline, but as of August 31, 2010, the officials in the HUD field office expressed concerns about the city meeting all requirements with less than 1 month before the deadline.

HUD Field Office Staff Are Meeting Recovery Act Monitoring Requirements

In May 2010, we reported that HUD was in the process of more clearly defining their monitoring requirements for Recovery Act funds and that until those requirements were defined, it was not clear that the Arizona HUD field office would have the workforce capacity to carry out the requirements.[12] HUD has now fully defined its Recovery Act monitoring requirements and the Arizona office is not only certain it has the capacity, but it has already completed much of the required monitoring. For example, the field office has already completed its mandated review of the four formula grants for those housing agencies that had not obligated at least 90 percent of their Recovery Act formula funds as of February 26, 2010, and they reported no deficiencies.

[11]The Recovery Act required the Phoenix housing agency to obligate its funds within 1 year from the date, September 24, 2009, when the competitive grant funds were made available.

[12]GAO, *Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Appendixes)*, GAO-10-605SP (Washington, D.C.: May 26, 2010).

Arizona Is Better Prepared to Monitor Its Use of IDEA, Part B and Title I, Part A Recovery Act Funds

The Arizona Department of Education is responsible for monitoring the use of federal funds it receives under the Individuals with Disabilities Education Act (IDEA), as amended, Part B and the Elementary and Secondary Education Act of 1965 (ESEA), as amended Title I, Part A grants, including Recovery Act and non-Recovery Act funds. The department has assigned monitoring responsibility to the Exceptional Student Services (ESS) Unit for IDEA funds and to the Title I Office for ESEA, which includes ESEA Title I, Part A funds. The ESS Unit provides funding to support the Arizona Department of Education's Audit Unit to perform fiscal monitoring of IDEA, Part B funds. In May 2010, we reported that neither the Audit Unit nor the Title I Office had begun monitoring local educational agencies' (LEA) use of Recovery Act funds. In that report, we noted that the Audit Unit and Title I Office were going to modify their guidelines or monitoring protocols to incorporate Recovery Act requirements and subsequently begin monitoring the use of Recovery Act funds.[13]

Since our May 2010 report, the Audit Unit and the Title I Office have made modifications to their monitoring processes to reflect Recovery Act requirements. For example, in June 2010, the Audit Unit revised its procedures for selecting LEAs to monitor. The revised procedures reflect the need to monitor for the use of Recovery Act funds and establish a process for selecting LEAs to monitor based on those that receive the largest amount of funding, including Recovery Act funding, as well as other factors including geographic, demographic, and high risk factors, such as deficiencies noted in prior reports that have not been corrected. Officials also have modified their fiscal monitoring fieldwork program, which specifically addresses monitoring for compliance with Recovery Act requirements. In addition, Audit Unit officials said that they began monitoring of Recovery Act funds on July 6, 2010.

We also inquired about how the Audit Unit will be discussing the LEAs' use of Recovery Act funds in future audit reports. Officials informed us that the reports will include a section that discusses the Recovery Act, its requirements, and examples of the types of expenses that are allowable. Furthermore, the audit reports will identify the amount of Recovery Act funds the LEAs received for the time period audited and describe the specific methods used to evaluate LEAs' compliance with requirements.

[13] GAO-10-605SP.

Finally, the audit reports will include audit time frames, which are critical for documenting the scope of work, in response to our inquiries.

The Title I Office has developed a "completion report" that LEAs are to use in reporting their use of Recovery Act funds. The report will capture information on the amount of Recovery Act funds that (1) LEAs have not distributed to schools and have set aside for their own uses, such as administration, instructional programs, and professional development and (2) private schools have used for professional development or family involvement, and homeless student services. The report also seeks information from LEAs and schools that have been identified as needing improvement in professional development as to whether they are eligible for waivers on spending funds for this purpose and, if so, how the waived funds were spent.[14] Monitors plan to use the information contained in this report to evaluate and verify the reported uses of the funds. Officials also informed us that they are currently completing additions to their on-line system that allow monitors to enter the results of their monitoring efforts and to identify the findings resulting from their review of Recovery Act audits. Title I officials said they would begin their monitoring through on-site visits after October 1, 2010.

[14]Section 1116 of ESEA requires schools identified for improvement to spend an amount equal to 10 percent of their ESEA Title I, Part A allocation for each fiscal year that the school is in improvement status for the purpose of providing high quality professional development to the school's teachers and principal. In addition, LEAs designated for improvement are required to spend 10 percent of their total ESEA Title I, Part A, subpart 2 allocation for professional development of instructional staff across the LEA. Waivers were made available to LEAs to exclude the Recovery Act ESEA Title I amounts when calculating school and LEA professional development set aside amounts.

Arizona's 2011 Balanced Budget is Dependent Upon Recovery Act Funds and State Ballot Measures, But Faces Challenges in the Future

For fiscal year 2011, approximately $815 million of Recovery Act related funds[15] helped Arizona to balance its budget by enabling the state to save the equivalent amount from its general fund, according to the Arizona Joint Legislative Budget Committee. This amount of funding is significantly less than the approximately $1.4 billion in Recovery Act funds the state applied to its fiscal year 2010 budget.

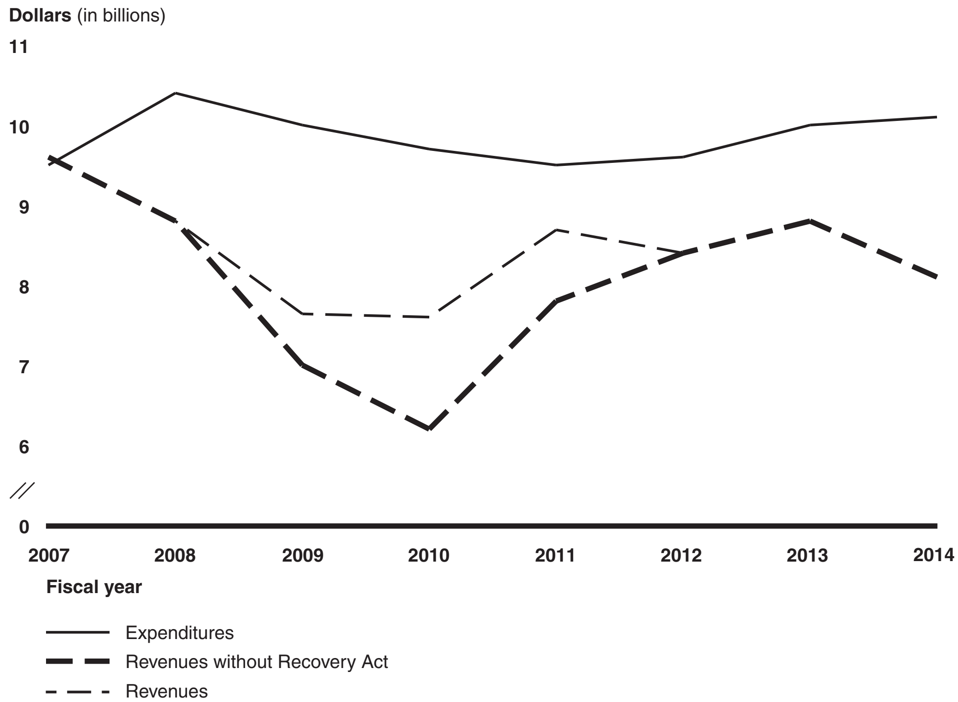
The balanced budget for fiscal year 2011 in Arizona also assumes the passage of two ballot measures in the upcoming November general election, which together would provide a total of approximately $469 million in new revenue for fiscal year 2011 and an estimated $80 million of on-going revenue in subsequent years. The first measure would terminate the Arizona Early Childhood Development and Health Board, transfer any remaining uncommitted fund monies—estimated to be $325 million—to the general fund; and redirect the dedicated ongoing tax revenues to the general fund. The second measure would repeal the state's Land Conservation Fund and transfer the remaining balance—estimated to be approximately $124 million—to the general fund. According to the Governor's office, there is currently no contingency budget should the November ballot measures not pass. The state legislature is awaiting the November election results before deciding on possible contingency budget solutions.

For fiscal year 2012, Arizona faces budget challenges, particularly as the Recovery Act funds phase out. Current economic forecasts project gradual growth in Arizona's economy; however, revenues are not expected to return to 2007 levels until after 2014, as seen in figure 3. To fully address the shortfalls of fiscal years 2008 through 2011, the state enacted some permanent spending reductions, but revenue increases were mostly temporary, such as using one-time fund transfers, acquiring debt, and implementing a 3-year temporary sales tax increase. These solutions are projected to narrow the structural gap through 2012. However, according to the Arizona Joint Legislative Budget Committee and Governor's office budget officials, the options for temporary revenue measures mostly have

[15]Section 101 of Pub L. No. 111-226, enacted on August 10, 2010, provides $10 billion for the new Education Jobs Fund to retain and create education jobs nationwide. The fund will generally support education jobs in the 2010-2011 school year and be distributed to states by a formula based on population figures. States can distribute their funding to school districts based on their own primary funding formulas or districts' relative share of federal ESEA Title I funds.

been exhausted and, as a result, without resumed economic growth, Arizona budgetary challenges would be significant.

Figure 3: Arizona General Fund Ongoing Revenues, with and without Recovery Act Money, and Ongoing Expenditures

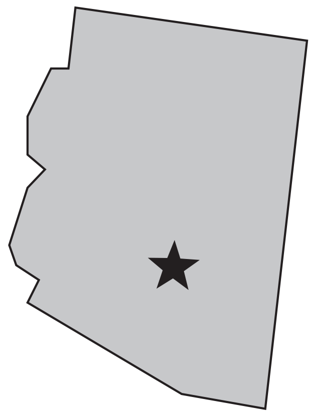


Source: Arizona Joint Legislative Budgect Committee Analysis and the Arizona Governor's Office of Economic Recovery.

Phoenix Aimed Its Recovery Act Funds at Short-Term Projects That Create Jobs

Phoenix, the largest city in the state (see figure 4), actively sought and now manages a diverse portfolio of Recovery Act funds to mainly support short-term, one-time projects in infrastructure development, energy conservation, public housing, and other areas. It uses multiple systems to track progress of Recovery Act funds, including a database designed specifically for this purpose and monthly departmental progress reports comparing goals to accomplishments.

Figure 4: Phoenix's Population and Unemployment Data



Phoenix, Arizona	
Population	1,601,587
Unemployment rate	10.3%

Source: U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics data.

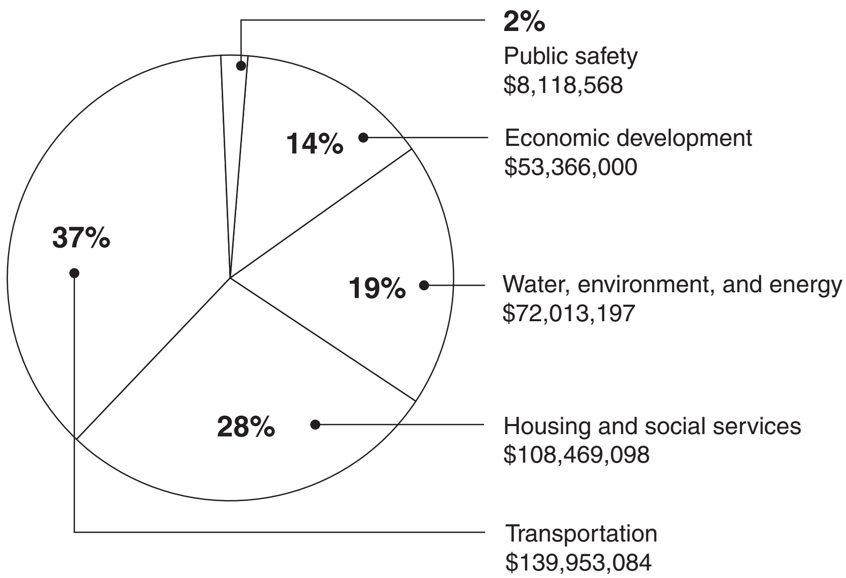
Notes: Population data are from the latest available estimate, July 1, 2009. Unemployment rates are preliminary estimates for June 2010 and have not been seasonally adjusted. Rates are a percentage of the labor force. Estimates are subject to revisions.

Phoenix's Diverse Portfolio of Recovery Act Funds Primarily Support One-Time Investments

As of June 16, 2010, the city of Phoenix was awarded $382 million in Recovery Act funds, most of which were directed toward specific purposes and did not go toward discretionary spending. Formula grants awarded to Phoenix support street pavement preservation, energy efficiency and conservation, and homeless prevention while competitive grants fund family housing, public transit, and water main improvements, among others.[16] Federal agencies provided approximately $238 million, or 62 percent, directly, while the remaining $144 million was awarded to state agencies that in turn passed the funds onto the city. Figure 5 shows categories in which Recovery Act Funds were awarded.

[16]Details of these Recovery Act funds are described in appendix XVIII.

Figure 5: Recovery Act Funds Managed by Phoenix



Source: GAO calculation of Phoenix data, as of June 16, 2010.

Note: Water, environment, and energy funds support public works and water projects. Economic development refers to bonds that are used toward public and private property improvements. Housing and social services funds support worker training, housing upgrades, and community services. Transportation funds support public transit, aviation, and street preservation projects. Public safety funds support fire, prosecution, and police operations. These funds are described in further detail in appendix XVIII.

Officials said that many projects supported by the funds are one-time investments, such as energy retrofits, transportation upgrades, or heating and cooling improvements in housing developments. For example, Phoenix received a $4.3 million grant from the Federal Transit Administration to make improvements to transit pads, benches, and shelters at various bus stops throughout the city. Because most of the funds are directed toward specific short-term projects such as these, budget officials said they do not anticipate facing challenges of trying to replace Recovery Act funding in order to complete or maintain projects, at the end of the grant period.

Recovery Act Funds Have Helped Create Jobs in Phoenix and Are Expected to Yield Beneficial Outcomes

Phoenix officials say the city has already benefited from the Recovery Act with new jobs through private sector contracts for housing and transportation, increased services to communities through programs such as Early Head Start, and energy savings and large-scale conservation for Phoenix residents from energy grants.

The Public Housing Capital Fund has been used to fund roof, security door, and flooring replacement along with interior painting in public housing projects. These projects have resulted in new work for private contractors, who in turn, hired or retained workers. City officials expect the projects to ultimately increase safety and hygiene in public housing. Similarly, all staff for the Early Head Start program has been hired, all beneficiaries are enrolled, and the program is actively underway, according to officials. Human Services Department staff said that this program, which offers regular child developmental assessments and increased information to parents, could ultimately mitigate developmental delays in children. The city has used the EECBG to develop an energy conservation strategy, conduct energy audits of public buildings that help to identify potential energy efficiencies, and install efficiency upgrades. The projects supported by these funds are expected to result in energy savings and conservation in Phoenix.

Phoenix Uses Multiple Systems to Track and Report Progress of Recovery Act Funds

Phoenix uses multiple systems to track the progress of its departments and the progress of programs supported by Recovery Act funds. These systems include an interactive database to report and track Recovery Act progress, the city manager's ongoing report on department performance, and specific audits to check internal controls and reporting consistency in Recovery Act programs.

Phoenix's Recovery Act Database Serves as a Management Tool

To capture and monitor the status and progress of Recovery Act funds, city management formed a Recovery Act Task Force, comprised of city managers that meets monthly to discuss Recovery Act progress, technical matters, and any issues that arise. They collaborate electronically using a database created to capture departmental information on Recovery Act funds. The database is used as a management tool across city departments to capture and disseminate information about the status of all Recovery Act grants actively managed by the city, such as number of jobs, total expenditures, and status notes or next steps. One longer-term benefit from these efforts is that officials said the database will most likely be retained as a means of electronic collaboration on federal grants in the future.

Phoenix Tracks Department Performance Monthly

Phoenix uses a management tool to monitor performance of its 28 departments. Each month, the City Auditor publishes a City Manager's Performance Report illustrating the year-to-date progress each department has made toward its annual goals, including some Recovery Act projects. Examples of Recovery Act-funded projects presented in the report are included in table 3.

Table 3: Examples of data presented in the monthly City Manager's Performance Report

Department	Recovery Act funds awarded	Goal	Target	Year to date[a] percent (as of June 2010)
Water	Water Infrastructure Finance Authority of Arizona loan	Ensure good maintenance of water mains and reduce water waste	Water main breaks—fewer than 360 per year	216 leaks
Housing	Public Housing Capital Fund	Maximize federal stimulus funds to maintain public housing stock and help communities affected by foreclosures	100% of funds committed and 100% expended (utilized) by stimulus fund deadlines	61% committed; 33% expended

Source: City of Phoenix, City Manager's Performance Report, June 2010.

[a]Year to date reflects fiscal year to date figures (July-June).

Funds Are Monitored by the Internal Audit Department

In May 2010, the city audit department conducted an audit to determine if: (1) departments had a process in place to track the Recovery Act funds; (2) the federal funds and reporting data in the city's financial system, Recovery Act database, and FederalReporting.gov are consistent; and (3) jobs were calculated according to Office of Management and Budget guidance. For the first review, officials reviewed internal procedures of eight departments. No substantive discrepancies were found.

The audit department is conducting a second audit to examine how departments are complying with requirements and how subrecipients are reporting their data, and to confirm any findings with external auditors. Furthermore, Phoenix will undergo an annual Single Audit by an external auditor and many Recovery Act funds will be examined in the fiscal year 2010 audit. Previous audits have not resulted in negative findings on the use of Recovery Act funds.

Quarterly Recovery Act Reporting

The Recovery Act requires Phoenix, as a recipient of Recovery Act funds, to file quarterly reports on the use of funds,[17] which are filed at FederalReporting.gov. When Phoenix is the primary recipient for Recovery Act funds, the city files the reports centrally through the City Manager's office. Departments are responsible for setting up control procedures to account for Recovery Act spending and department delegates enter data into the Recovery Act database. Where the city is a recipient of pass-through funds from state agencies, such as transportation Recovery Act funds, the city conducts recipient reporting through the appropriate state agency, such as the Arizona Department of Transportation.

[17]Recovery Act, div. A, § 1512.

Arizona's Auditor General and Others in the Accountability Community Continue to Monitor and Audit Recovery Act Funds

According to data from the Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, it received Arizona's Single Audit reporting package for the year ending June 30, 2009, on June 4, 2010. This is about 2 months after the deadline specified by the Single Audit Act and almost a year after the period the audit covered. This was the first Single Audit for Arizona that includes Recovery Act programs and it included only 4 months of Recovery Act expenditures. Approximately $834 million in Recovery Act fund expenditures were included in this audit. The state expects to receive approximately $2.8 billion in Recovery Act funds through 2011.

Arizona's Single Audit report for fiscal year 2009 identified 28 significant internal control deficiencies related to compliance with federal program requirements, of which 9 were classified as material weaknesses. Some of these material weaknesses and significant deficiencies occurred in programs that included Recovery Act funds. This Single Audit reported on internal controls over financial reporting and compliance with pertinent laws and regulations. Only 2 of the 28 significant internal control findings related to federal funding awards were specific to controls over Recovery Act funds. Most were similar to prior-year findings and were generally for programs that received federal funds other than Recovery Act funds. In its two findings specifically related to Recovery Act funds, the Auditor General reported that the Governor's Office indicated it had verified that subrecipients of State Fiscal Stabilization Fund monies had not been suspended or debarred from doing business with the federal government before doing business with the subrecipient, as required by federal regulations, but did not maintain documentation of the verification. Additionally, they found that the Arizona Department of Education failed to have current central contractor registrations on file prior to awarding Recovery Act ESEA Title I grants to LEAs. The Governor's Office and the Arizona Department of Education have corrective action plans to address these findings.

Auditor General officials said that because Recovery Act monies are flowing through existing programs and existing state agencies' processes, their current auditing process remains appropriate to ensure the proper auditing of Recovery Act awards.

OER is Implementing its Monitoring of Recovery Act Funds

Our May 2010 report noted that the OER planned to implement a risk-based monitoring plan for the state and local recipients of State Fiscal Stabilization Fund monies that expended more than $500,000 for fiscal years 2009 and 2010, which included LEAs, community colleges, universities, and 1 Teach for America contract. Since that report, OER revised its monitoring plan and implemented a two-prong approach.

The first prong includes a desk review process to ensure that its subrecipients have had a Single Audit, as required by the Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profits requirements to have a Single Audit. The OER's desk review monitoring plan covers the Single Audits for the state's 11 community colleges and 3 universities. The OER reviews the Single Audit results looking for questionable costs and findings and issues a management decision regarding findings that are applicable to the OER. As of July 30, 2010, the OER had reviewed 9 of the 11 Single Audits for the community colleges. No findings were identified in seven of the nine community colleges' Single Audits. Two community colleges had findings but have corrective action plans to resolve the findings. According to OER officials, their plan for monitoring LEAs that received State Fiscal Stabilization Fund monies for kindergarten through grade 12 continues to be developed and may be done in conjunction with other monitoring conducted by the Arizona Department of Education or may be done by OER based on a sample of LEAs.

The OER staff also visit the community colleges and universities as part of their monitoring efforts. The on-site visits are to encourage communications among the OER and its subrecipients and to verify that the Recovery Act funds are being used in accordance with their grant applications. As of July 30, 2010, the OER has conducted field visits at 5 of the 11 community colleges and at all 3 universities, and no issues were identified.

The second prong of the OER monitoring approach is to provide technical assistance to state agencies on how to identify fraud, waste, and abuse to agencies receiving Recovery Act funds. As of July 30, 2010, OER staff had met with 5 of 29 state agencies receiving Recovery Act funds to discuss fraud, waste, and abuse prevention. Using a guide, "A Resource to Combat Fraud, Waste and Abuse," OER staff has met with state agencies to obtain an understanding of the agencies' internal controls for its programs receiving Recovery Act funds and to provide assistance.

State Comments on This Summary

We provided the Governor of Arizona with a draft of this appendix on August 13, 2010. The Director of the Office of Economic Recovery responded for the Governor on August 19, 2010. Also, on August 17, 2010, we received technical comments from the State of Arizona Office of the Auditor General. In general, the state agreed with our draft and provided some clarifying information which we incorporated.

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