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RECOVERY ACT

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

GAO-10-1000SP

Appendix X: Michigan

Overview

This appendix summarizes GAO's work on the seventh of its bimonthly reviews of American Recovery and Reinvestment Act of 2009 (Recovery Act)[1] spending in Michigan. The full report covering all of GAO's work in 16 states and the District of Columbia may be found at http://www.gao.gov/recovery.

What We Did

Our work in Michigan focused on the Recovery Act-funded Energy Efficiency and Conservation Block Grant (EECBG), how Michigan provided accountability over Recovery Act funds, and how Recovery Act funds affected Michigan's and a selected locality's fiscal conditions. We reviewed selected recipient reports to the federal government, as well as oversight and accountability practices at both the state and local level. We selected program areas and activities based on a number of risk factors, such as the receipt of significant amounts of Recovery Act funds. We also reviewed the design of internal controls over program areas and activities, as well as those put in place to gather and report spending and jobs data for recipient reports to the federal government. For descriptions and requirements of the programs we covered, see appendix XVIII of GAO-10-1000SP.

We performed our work at state and local agencies responsible for implementing, monitoring, and overseeing the programs. For our review of EECBG, we spoke with officials from two local communities—the city of Farmington Hills and Kent County—as well as officials from the Michigan Department of Energy, Labor & Economic Growth (DELEG)—the state agency which administers the program.

We continued to track the use and impact of Recovery Act funds on state and local fiscal stabilization. We met with state budget officials and local officials from the city of Farmington Hills to assess their fiscal situations and the Recovery Act's impact on their communities. To understand the state's Recovery Act oversight and accountability efforts, we spoke with officials from the Economic Recovery Office (ERO), Office of the Auditor General (OAG), Office of Internal Audit Services (OIAS), and the Detroit Office of Auditor General. We obtained the June 2010 reports of the OAG covering its financial audits that included the provisions of the Single

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

Audit Act[2] for seven Michigan departments and a component unit of the state.[3] Each of these audits covered the 2-year period that ended September 30, 2009. We read and summarized the Single Audit reports for the Michigan Department of Education (MDE) and the Department of Community Health (DCH). We also reviewed the most recent Single Audit reports for the local communities that we visited as well as the most recent Single Audit report for the city of Detroit. To address financial management and internal control challenges we previously reported on in September 2009 (GAO-09-1017SP) and May 2010 (GAO-10-605SP), we followed up on actions taken and those planned by MDE and Detroit Public Schools (DPS), and state and local agencies with responsibility for the state's Workforce Investment Act of 1998 (WIA) Youth Employment Program.

Finally, to understand Michigan's experience in meeting the June 30, 2010, Recovery Act reporting deadline, we met with state and local officials to discuss processes and procedures selected recipients have in place to implement the Office of Management and Budget's (OMB) guidance on job calculations. Additionally, we followed up on recipient reporting issues related to the March 31, 2010, quarterly recipient reports that we identified in our May 2010 report.

What We Found

- **Energy Efficiency and Conservation Block Grants.** The U.S. Department of Energy (DOE) awarded a total of $76.6 million in EECBG funds to Michigan—74 percent ($57.0 million) directly to 68 communities and 26 percent ($19.6 million) to DELEG. In turn, DELEG awarded 89 percent ($17.4 million) of its allocation to 131 subgrantees through a competitive grant process. Michigan and some local governments have begun spending EECBG, with the state relying on existing mechanisms to oversee spending. State officials told us that DELEG is not responsible for and does not monitor the use of EECBG funds that localities received directly from DOE. We spoke with officials from two local communities that received EECBG funds directly from DOE, who told us that they rely on existing internal controls and systems to safeguard EECBG funds. DELEG directs most

[2]Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, (31 U.S.C. §§ 7501-7507) and provide a source of information on internal control weaknesses, noncompliance with laws and regulations, and the underlying causes and risk.

[3]The Michigan Public Educational Facilities Authority is a separately audited component unit of the state.

of its EECBG funds to projects in communities across the state to spread program funds as widely as possible and increase the visibility of these projects. Direct grantees in Michigan are likewise using their grants for projects that promote intergovernmental cooperation and public awareness, along with energy conservation.

- **Recipient reporting.** Beginning with the quarter ending June 30, 2010, Michigan shifted from a centralized to a new decentralized reporting process. For the first time, Michigan state agencies submitted quarterly recipient reports directly to the federal government rather than to the state's ERO, which had previously served as a centralized reporting point transmitting reports to the federal government. ERO officials told us that state agencies successfully submitted their reports by the July 14, 2010 deadline, and did not experience substantial challenges with compiling or reporting the data. We met with a Farmington Hills official regarding the city's recipient report for its EECBG grant. While Farmington Hills submitted the recipient report by the deadline, the official told us he experienced some challenges and, subsequent to our meeting, took steps to resubmit the report to better reflect hours worked. Finally, we followed up with state and other officials to identify actions taken to address issues we previously identified regarding recipient reporting. We found that recipients still varied in compliance with guidance on reporting jobs due to varying interpretation of OMB's guidance.

- **Oversight and accountability efforts.** Michigan's OAG and OIAS serve key roles in safeguarding Recovery Act-funded programs. In June 2010, OAG issued eight reports covering its financial audits that included the provisions of the Single Audit Act for seven Michigan departments and a component unit of the state. Each of these audits covered the 2-year period that ended September 30, 2009, and collectively covered entities that reported federal program expenses of approximately $20 billion, including $2 billion of Recovery Act funds. These are the first state level Single Audits for Michigan that include Recovery Act programs. The OAG issued "clean" or unqualified opinions on each of the financial statements for each of the entities. The OAG also reported significant deficiencies in internal controls over federal program compliance matters for each of the entities audited – including controls over Recovery Act and non Recovery Act federal programs. OIAS officials told us that in fiscal year 2011 they intend to prepare summaries of findings reported by accountability professionals related to federal programs, including Recovery Act-funded programs, which they anticipate will identify issues to consider at a state-wide level, such as lessons learned from oversight and monitoring of Recovery Act funds. Local accountability practices, including single audits by independent public accountants, also help provide oversight and monitoring of federal programs.

- **Actions taken to address previously reported internal control challenges.** In July 2010 officials with MDE, DPS and DELEG as well as ERO officials told us that some actions have been taken and that others are underway to address the internal control challenges described in our September 2009 and May 2010 reports. For example, MDE officials told us that they continue to monitor Recovery Act funds provided to DPS and, among other things, they are using an independent public accounting firm to monitor payroll and non payroll expenditures at DPS. According to OIAS officials, MDE plans to hire an auditor in the near term and initiate a fiscal monitoring program. Officials from DELEG—the state agency responsible for the WIA program—told us that they are continuing to work with stakeholders to address the payroll and eligibility challenges that we identified with the WIA summer youth program in Detroit. DELEG officials also provided us with documentation describing the Detroit Workforce Development Department's (DWDD) plan for improved monitoring of future programs in Detroit. The plan is under review, and DWDD officials told us they developed and approved eligibility criteria for use in future youth employment programs.

- **States' and local governments' fiscal condition and use of Recovery Act funds.** Michigan continues to experience economic challenges as a result of the decline in the automotive industry, which has lead to budget pressures and declines in state revenues. Michigan has addressed its fiscal year budget gaps since the beginning of the Recovery Act through a combination of Recovery Act funds and cost-cutting measures. As of June 30, 2010, slippage in revenue estimates left the state with a projected General Fund shortfall of approximately $200 million for the fiscal year ending September 30, 2010. Officials are seeking solutions to this shortfall while simultaneously addressing a projected fiscal year 2011 budget gap of $1.1 billion. On August 11, 2010, state budget officials told us that based on recent federal action extending the increased Federal Medical Assistance Percentage (FMAP), Michigan estimates it will receive approximately $300 million.[4] According to state budget officials, as of July 16, 2010, expenses of Michigan state entities totaled about $7.0 billion of the approximately $7.4 billion in Recovery Act funds it has been awarded. State officials told us they are aware of the upcoming “cliff effect” in fiscal year 2012, when Recovery Act funds diminish, and are working to devise solutions to address the potential budget shortfall. As we previously reported, local governments we visited in Michigan are facing the pressure of balancing budgets in the midst of declining revenues. Officials from Farmington Hills told us their city is experiencing a similar situation. They said that Recovery Act funds allowed the city to undertake projects and purchase equipment it otherwise would not have been able to, but that these funds have not had an impact on the city’s fiscal stability. Given that the city plans to spend all of its Recovery Act funds on one-time projects or acquisitions, officials do not foresee having to deal with a “cliff effect” once Recovery Act funds are expended.

Energy Efficiency and Conservation Subgrants Were Awarded Promptly and State and Local Governments Are Generally Relying on Existing Mechanisms to Oversee Spending

The Recovery Act appropriated $3.2 billion for the EECBG program—$2.8 billion to be allocated directly to states and eligible units of local government by formula, and the remaining $0.4 billion to be awarded on a competitive basis. Grantees may use EECBG funds for a variety of activities to help reduce energy use and fossil fuel emissions and improve energy efficiency in state and local jurisdictions. Grantees are to obligate or commit all program funds within 18 months of the date funds are awarded and expend them within 3 years of the award date. In addition, states are to use at least 60 percent of their grant funds to communities not eligible for direct grants from DOE and no more than 10 percent of their grant funds for administrative expenses.

DOE awarded a total of $76.6 million in EECBG program funds for grants to Michigan, of which 74 percent ($57.0 million) was awarded directly to 68 communities, and 26 percent ($19.6 million) to the state’s DELEG on September 14, 2009.[5] Of the $19.6 million allocated to the state, DELEG awarded 89 percent ($17.4 million) to 131 subgrantees, through a

[4]The Recovery Act initially provided eligible states with an increased FMAP for 27 months from October 1, 2008, to December 31, 2010. Recovery Act, div. B, title V, § 5001, Pub. L. No. 111-5, 123 Stat. at 496. On August 10, 2010 federal legislation was enacted amending the Recovery Act and providing for an extension of increased FMAP funding through June 30, 2011, but at a lower level. *See* Pub. L. No. 111-226, § 201, 124 Stat. 2389 (Aug. 10, 2010).

[5]The total allocation for Michigan includes $1.4 million to 12 direct grantees which are tribal governments.

competitive grant process, and retained the maximum 10 percent ($2.0 million) for state program administration. DELEG awarded the remaining 1 percent ($0.2 million) to four nonprofit agencies for technical assistance to local communities. As of June 30, 2010, DELEG officials told us the state had awarded all of the $17.4 million budgeted for subgrants to local communities.

Michigan grantees have begun to spend EECBG program funds. According to DOE data, as of July 23, 2010, the state and its subgrantees had spent approximately $0.6 million, about 3 percent of the $19.6 million grant that the state received directly. According to DOE, Michigan's remaining direct grantees had spent approximately $8.0 million through July 23, 2010, or 14 percent of the total $57.0 million awarded directly to them by DOE.

State Oversight Is Limited to Monitoring Subgrantees

To provide accountability for EECBG program funds, DELEG generally relies on existing processes and procedures. In addition, DELEG hired a full-time staff member to monitor subgrantee progress and coordinate the financial aspects of managing Michigan's EECBG grant. DELEG also established an online reporting system that subgrantees must use to submit detailed data on program expenditures and outcomes on a quarterly basis. State officials told us that the online system is designed to be similar to DOE's Performance and Accountability for Grants in Energy (PAGE) system. DELEG posts guidance on DOE's reporting requirements on its Web site to help subgrantees understand how to report their expenditures and outcomes into DELEG's online system. In addition, an EECBG grant administrator completed site visits with four subgrantees during the period June 23 through June 25, 2010 that allowed the state to verify that these subgrantees were tracking federal funds separately and were complying with Buy American requirements.[6]

State officials told us that DELEG is not responsible for and does not monitor the use of EECBG funds that localities received directly from DOE. The agency does keep track of how much DOE has awarded to these localities although it may, if requested, provide support to localities. For example, state officials told us that when one direct grantee in the state encountered difficulties in meeting federal historic preservation standards for a planned revitalization and retrofitting project, DELEG officials

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

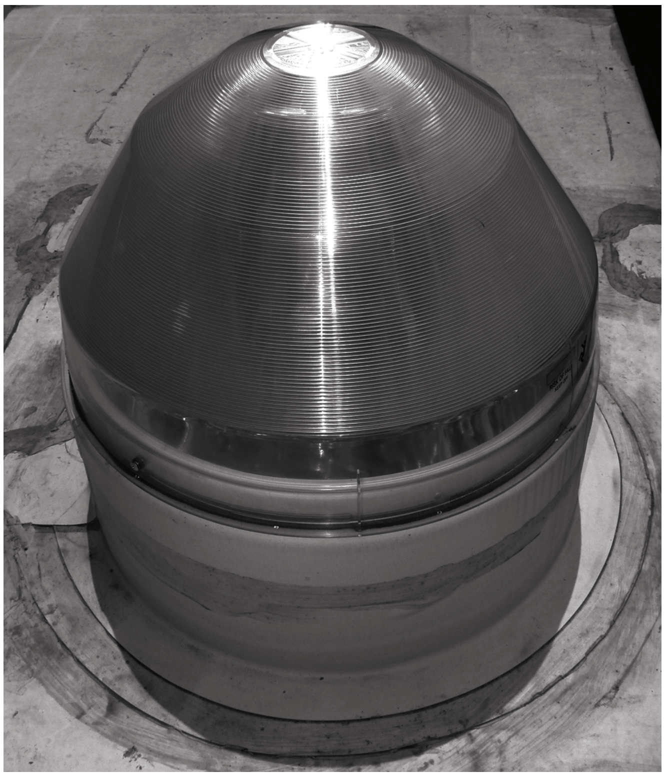
worked with the county to resolve the issues, and the project was approved.

EECBG Grants Are Being Used to Fund High-Visibility Projects across the State

DELEG's energy conservation strategy includes directing most of its EECBG grants to projects in local communities across the state to spread program funds as widely as possible and increase the visibility of these projects. For example, DELEG officials told us that Michigan targeted light-emitting diode (LED) lighting projects first to ensure that there would be a visible pipeline of projects throughout the state for which Michigan LED manufacturers could begin preparing bids. The state also hired a consultant to provide assistance to localities with the technical aspects of their LED project proposals. DELEG has awarded a total of 10 subgrants for LED projects. DELEG officials told us Michigan used a strategic approach for awarding its technical assistance grants. Long before the Recovery Act was passed, Michigan had divided the state into geographic regions and promoted the development of expertise among various coalitions of energy conservation groups to serve each of these regions. Officials told us this helped encourage regional planning efforts and minimize the number of overlapping projects, as well as virtually blanketing the state with energy efficiency projects.

Direct grantees in Michigan are also using their grants to fund projects that promote intergovernmental cooperation and public awareness. For example, officials with the city of Farmington Hills told us they are using their $791,300 EECBG grant to fund start-up costs for a coalition of local governments for developing and implementing long-term strategies to reduce energy consumption. In addition, the city plans to develop a Web site to provide information to its residents and businesses about energy efficiency efforts. They are also using their grant to build additional energy saving measures into its City Hall revitalization project (see fig. 1). For example, according to Farmington Hills officials, they are using grant funds to install a solar hot water heater and a green roof—a roof that is covered with vegetation—as part of its preplanned renovation of its City Hall facility.

Figure 1: Example of an Energy Conservation Improvement Paid for with Recovery Act EECBG Program Funds in Farmington Hills, MI



An exterior light tube (left photo)—which was funded by the Recovery Act—and the interior of Farmington Hills' City Hall building (right photo), showing the lighting provided with the light tube.

Source: City of Farmington Hills.

Officials with Kent County told us they will use about half of the county's total grant of $2,796,700 to fund two projects. One of the projects takes advantage of the lower cost of buying materials in bulk by coordinating the purchase of a large volume of more energy efficient replacement glass for one of its county owned facilities in the city of Grand Rapids. The other project involves installing a geothermal heating and cooling system at the new county correctional facility, which is currently under construction.

Local Communities We Spoke with Rely on Existing Controls to Safeguard EECBG Funds

We spoke with two local Michigan grantees—one county and one city—that received EECBG funds directly from DOE, and officials from both communities told us that they rely on existing internal controls and systems to safeguard EECBG funds. For example, Kent County officials told us that the county is the recipient of many federal grants, including EECBG funds, and will rely upon existing internal controls and systems, including established accounting and purchasing policies, to safeguard these funds. Officials also told us that county policies that govern areas such as accounting and purchasing are applicable to these funds. In addition, the county has assembled an implementation team that meets to consider EECBG progress, funding, and other issues, as necessary.[7] For example, the implementation team communicates regularly about activities related to the EECBG grant, such as soliciting bids for projects and compliance with the Buy American and Davis-Bacon provisions of the Recovery Act.[8]

Farmington Hills officials told us the city has not developed a formal, written monitoring plan for the use of its EECBG funds. Instead, the city relies on its existing internal controls, including those for monitoring of grant funds. For example, officials told us that Farmington Hills requires contractors to submit certified payrolls each week, and the city's Finance Department reviews these for compliance with Davis-Bacon wage-rate requirements. In addition, the city's EECBG Program Manager said that it is standard practice to require written letters from contractors verifying that final assembly of items purchased with contract funds was completed in the United States and that he reviews all proposed expenditures for compliance with the Buy American provision of the Recovery Act before approving the purchases. Officials told us that although it was a challenge at first to fully understand all of the requirements for managing and monitoring this grant, they are comfortable with the system that they have in place to safeguard the use of EECBG funds.

[7]The team includes representatives from the county's Departments of Purchasing, Facilities Management, and Fiscal Services (for accounting and budget issues), and the county Administrator's Office.

[8]The Recovery Act's Davis-Bacon provisions are located at section 1606 of the act. Recovery Act, div. A, § 1606, 123 Stat. 303.

Michigan Agencies Were Able to Submit Recipient Reports on Time

The Recovery Act requires each recipient of Recovery Act funds to report information quarterly to the federal government on each award, including (1) the total amount of funds received, (2) the amount of funds expended or obligated to projects or activities, and (3) the estimated number of jobs created and retained by the projects and activities.[9] For this report, we met with state and local officials to discuss selected recipients' processes and procedures to implement OMB's guidance on full-time equivalent (FTE) job calculations.[10] We also reviewed steps recipients took to assess the quality of the data they used in their most recent recipient reports, which covered the period April 1, 2010, through June 30, 2010. We found that Michigan state agencies were able to submit their recipient reports on time. Additionally, we followed up on recipient reporting issues related to the March 31, 2010, quarterly recipient reports that we identified in our May 2010 report (GAO-10-605SP).

State Agencies Had No Issues Switching to Decentralized Reporting System

Beginning with the quarter ending June 30, 2010, Michigan shifted from a centralized to a decentralized reporting process, wherein state agencies submitted recipient reports directly to the federal government via federalreporting.gov rather than to the state's Economic Recovery Office (ERO), which had previously served as a centralized reporting point transmitting reports to the federal government. ERO officials told us that because of upcoming changes to the state's administration,[11] they moved to a decentralized process this quarter to give state agencies time to adjust to the new process and seek ERO's assistance if necessary.

ERO officials told us that the decentralized reporting process for the quarter ended June 30, 2010, went smoothly. They said that state agencies encountered no serious issues in submitting their reports to the federal government by the July 14, 2010, deadline.[12] The only issue state agencies experienced was that the large volumes of traffic on the

[9]Recovery Act, div. A, title XV, § 1512(c).

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

[11]The state's administration will change with upcoming elections because Michigan's governor is term limited.

[12]Generally, recipients are to submit reports to OMB's federalreporting.gov 10 days after the quarter ends. OMB extended this quarter's reporting period deadline to July 14, 2010.

federalreporting.gov Web site led to significant site slow-down and posed some accessibility challenges, particularly during the last 48 hours before reports were due. According to ERO officials, this caused one state agency—the Department of Agriculture—to try unsuccessfully to submit its report by the deadline; it submitted the report the next day.

ERO officials stated that the quality of the submitted state agency data has improved over time. They told us the opportunity for making corrections during the expanded open period for amendment has improved data quality by allowing agencies to address issues that come to light, even after the submission deadline.

To prepare for the transition to decentralized reporting, ERO officials told us they trained state agencies on how to submit reports directly to the federal government. For the June 30, 2010, reports, and through the end of the 2010 calendar year, ERO officials told us they will advise state agencies needing assistance, but will no longer review state agencies' reports for reasonableness and completeness, leaving this up to each agency.

One Community Experienced Challenges with Recipient Reporting

In July 2010, we met with the Farmington Hills city official responsible for completing and submitting the EECBG recipient reports. Farmington Hills, a direct recipient of a DOE award, submitted the recipient report to the federal government by the July 14, 2010, deadline. The official told us he used DOE guidance to prepare the recipient reports. He told us that he used one method to calculate FTEs for DOE PAGE reporting[13] and another for the federal recipient reports, which has been difficult. For DOE reporting, he aggregated and reported quarterly hours regardless of whether they had been paid, but for federal recipient reports he aggregated and reported quarterly hours only if they had been paid. We suggested he seek clarification from DOE on how to aggregate and report quarterly hours. Subsequent to our meeting, he told us he sought clarification and took steps to resubmit the OMB recipient report to reflect hours worked by staff and contractors during this quarter, regardless of whether they had been paid. He said that using the same information for both the OMB and DOE reports will be much simpler.

[13]Recipients of EECBG funds are required to report quarterly to DOE on three categories of activity and results metrics, including jobs created or retained, using DOE's PAGE system.

Some Recipients Still Varied in Compliance with OMB's Guidance on Reporting Jobs

We reported in May 2010 on selected recipients' steps to assess the quality of the data used in their March 31, 2010, recipient reports. We also reviewed supporting documents and met with state officials from the ERO; DELEG and DWDD; MDE, DPS, and Michigan State University (MSU). We reported that the report preparers we reviewed generally followed OMB guidance; however, their interpretations of the guidance and processes varied and did not consistently ensure that they reported complete and accurate information to the federal government.[14] In May 2010, ERO officials told us that they would work with stakeholders to address the issues we identified and in July 2010 we followed up on their progress.

Officials from DWDD—one of 25 Michigan Works! Agencies (MWA)—told us that the FTE information they provided to DELEG for its March 31, 2010, report to the federal government did not, as required, include either staff, contractor or subcontractor hours.[15] We suggested that DELEG should ask ERO and federal officials what information they needed to obtain from contractors and direct their subrecipients as appropriate.

In July 2010, ERO officials told us that they had been working with DELEG to address recipient reporting requirements. ERO officials also told us that DELEG is expected to make an amendment to their June 30, 2010, recipient report during the open period for amendment ending September 13, 2010, to include jobs worked by DWDD's contractor during the previous quarter. ERO officials said that DELEG has a strategy in place to make sure that DWDD staff hours worked are reported appropriately in future recipient reports. ERO officials told us in August 2010 that they will continue to work with DELEG on this issue.

MDE and DPS—For our May 2010 report, we noted that DPS officials told us that their initial report to MDE for the quarter ending March 31, 2010, did not include staff jobs paid for with Recovery Act State Fiscal Stabilization Fund (SFSF) education stabilization funds nor contractor jobs paid for with Recovery Act funds. We determined that DPS had

[14]OMB's December 2009 guidance states that recipients are to include jobs funded from subrecipients and vendors in their quarterly reports to the maximum extent practicable. See OMB Memorandum, M-10-08, December 18, 2009.

[15]Of the $11.4 million of Recovery Act funding allocated to the Detroit Michigan Works! Agency, DWDD retained $8.3 million for youth payroll and internal administration and used $3.1 million to contract with a vendor that administered the summer youth employment program. In total, DELEG allocated $62.9 million to the 25 Michigan Works! Agencies for their Workforce Investment Act Summer Youth Programs.

submitted an amended March 31, 2010, report which included 430 staff jobs paid for with SFSF funds, but not, as required, jobs created by contractors and subcontractors. ERO officials told us in August 2010 that they will continue to work with MDE and DPS to ensure that contractor and subcontractor jobs are included in future recipient reports and that actions are taken to amend past reports.

MSU—MSU officials told us that through March 31, 2010, MSU had spent $2.5 million of its $35.7 million awarded SFSF education stabilization funds on scholarships, and reported zero jobs in the recipient report for the quarter ending March 31, 2010. University officials told us that approximately $30.1 million of these funds would be used to fund MSU salaries and related benefits retroactive to October 1, 2009. They told us they would seek guidance from Michigan's Department of Management and Budget about how to report the jobs funded by the Recovery Act and paid for in previous quarters. When we contacted officials from the ERO and MSU in July 2010, ERO officials told us that after we brought the matter to their attention in our May report,[16] they contacted MSU to provide guidance on how they thought MSU should report FTEs funded by the Recovery Act in previous quarters. ERO officials told us that they advised MSU officials to compute and report jobs that had been funded retroactively with Recovery Act funds in previous quarters. University officials told us they also received guidance from MDE through the Michigan Department of Technology, Management & Budget, and for the June 30, 2010, report, MSU reported 312.02 FTEs.

[16]We noted in our May report that officials from ERO, the Michigan Department of Technology, Management & Budget, and MDE should consider what actions might be taken to ensure that jobs that are paid for with Recovery Act SFSF education stabilization funds are being reported consistently and on time.

State and Local Accountability Professionals Have Completed a Number of Audits and Related Oversight Activities That Included Recovery Act Funds and Monitoring and Oversight is Continuing

Michigan's OAG and OIAS serve key roles in safeguarding Recovery Act-funded programs. OAG is responsible for conducting financial, performance, and Single Audits[17]—under the Single Audit Act—of Michigan's state agencies. The OIAS, Michigan's central internal audit group, assists executive branch departments in assessing risk and implementing, maintaining, and monitoring internal controls, along with providing a variety of other assurance and consulting activities. In addition, local city and county governments in Michigan that we visited for this report—such as the city of Farmington Hills and Kent County—and various local community organizations that we visited for our earlier work in Michigan—including Local Educational Agencies (LEA), Community Action Agencies, and Public Housing Authorities—typically rely upon financial statement audits that include single audit processes performed by independent public accountants as a safeguard to provide oversight of Recovery Act funds. Also, the Detroit Office of Auditor General performs important oversight functions as does the independent public accountant that performs Single Audits for the City of Detroit.

Office of Auditor General's Single Audits Provide Oversight Of Michigan's Departments and Agencies

OAG officials told us that they conduct separate Single Audits for each of Michigan's departments and agencies every 2 years. Although the scope of the audit for each state department and agency differs—depending on the results of risk assessments—the auditor typically conducts compliance work in areas such as Davis-Bacon Act provisions, state cost matching or maintenance-of-effort requirements, allowable costs, recipient reporting, and subrecipient monitoring.[18]

[17]Single Audits are prepared to meet the requirements of the Single Audit Act, as amended, (31 U.S.C. §§ 7501-7507) and provide a source of information on internal control and compliance findings and the underlying causes and risks. The Single Audit Act requires that 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.

[18]The Recovery Act's wage rate provisions are located at section 1606 of division A of the act.

In June 2010, OAG issued eight reports covering its financial audits that included the provisions of the Single Audit Act for seven Michigan departments and the Michigan Public Educational Facilities Authority, a component unit of the state.[19] These audits were the first state level Single Audits for Michigan that included Recovery Act programs. Each of these audits covered the 2-year period that ended September 30, 2009, and collectively covered entities that reported federal program expenses of approximately $20 billion—including $2 billion of Recovery Act funds.[20] The OAG issued "clean" or unqualified opinions on each of the financial statements for each of the entities. The OAG also reported significant deficiencies in internal control over federal program compliance matters for each of the entities audited.[21] The OAG's findings of internal control deficiencies at state agencies may have a direct effect on Recovery Act funds even when the issue reported is based on non Recovery Act funds. For example, the OAG single audit report for DCH reported significant deficiencies for all 11 major federal programs audited. This indicates that the controls DCH has in place may not prevent or detect errors and ensure sufficient accountability. OAG audits in future years will include the Recovery Act and non-Recovery Act federal program activities of the other 9 Michigan departments for 2009 and later years.

To meet the accountability requirements of the Recovery Act, it is important that Michigan officials promptly address the challenges identified in the June 30, 2010, single audit reports covering the 2 years ended September 30, 2009. These single audit reports provide information on internal controls and compliance issues that directly affect some Recovery Act funds. As reported by the OAG, noncompliance with federal

[19]The OAG issued Single Audit reports on June 30, 2010 for the Departments of Community Health, Education, Military and Veterans Affairs, Natural Resources, Environmental Quality, and State Police; June 15, 2010 for the Department of Corrections; and May 21, 2010 for the Michigan Public Educational Facilities Authority, a discreetly presented component unit of the state. The Federal Audit Clearinghouse, which is responsible for receiving and distributing Single Audit results, received these audits by June 30, 2010.

[20]In comparison, Michigan's audited consolidated financial statements for the two fiscal years ended September 30, 2009 report total expenses of $88.3 billion.

[21]The OAG defined a significant deficiency in internal control over federal program compliance as a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential, will not be prevented or detected.

requirements for Recovery Act funds could result in sanctions and disallowances, or future reductions in Recovery Act awards.

To further consider the issues reported by the OAG that may apply to Recovery Act funds, we read and summarized the Single Audit reports for MDE and DCH, the two largest departments that received Single Audits. We also read the preliminary responses of agency management to the audit findings that were contained in the June 30, 2010, audit reports for MDE and DCH. The OAG stated that Michigan law requires that the audited agency develop a formal response within 60 days after release of the audit reports. Because these two audit reports are dated June 30, 2010, no formal responses were available for us to consider in this report.

Michigan Department of Education. For the 2 years ended September 30, 2009, the OAG single audit of MDE covered 18 federal programs—including seven Recovery Act awards. During this period, MDE reported expenses of approximately $3.7 billion in federal awards, including $611 million in Recovery Act funds. The OAG reported significant deficiencies in MDE's internal controls—including subrecipient monitoring of Recovery Act funded programs—and stated that MDE's internal controls did not ensure its compliance with certain federal laws and regulations. Compliance issues were reported with respect to special tests and provisions (such as the requirements for allocation of special education funds to charter schools), eligibility requirements, subrecipient monitoring, allowable costs and cost principles, and maintenance-of-effort by the state. For example, OAG reported that MDE's internal control did not ensure that subrecipients met allowable costs and cost principles for ESEA Title I[22] grants to LEAs, stating, for example, that three contracts for professional and information technology services totaling $11.1 million were not competitively bid, and neither MDE nor its subrecipients could document how these expenditures were determined to be reasonable. In their preliminary response to the June 30, 2010, audit report, MDE officials agreed with 8, disagreed with 1, and partially agreed with 8 of the OAG's 17 internal control findings and compliance issues. MDE officials disagreed with the finding related to documentation supporting professional and information technology services expenditures and stated that they agreed with the underlying intent of the recommendation—to improve MDE's internal control over subrecipient monitoring— but disagreed with the questioned costs.

[22]Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended.

Department of Community Health. For the 2 years ended September 30, 2009, the OAG single audit of DCH covered 11 federal programs which reported approximately $15.2 billion in federal awards—including approximately $1 billion in Recovery Act awards. The OAG report identified $489 million of known[23] questioned costs and $4.4 billion[24] of known and likely[25] questioned costs. These amounts include questioned costs for Recovery Act funds of $88 million of known and likely questioned costs related to prompt pay requirements for the Medicaid program. [26] The OAG noted that DCH had developed, but had not officially implemented, a reporting system that would enable it to monitor compliance with the Recovery Act's prompt pay requirements. Further, the OAG recommended that DCH improve its internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations on allowable costs and cost principles.[27] In their preliminary response to the June 30, 2010 audit report, DCH officials stated that they agreed with 19, disagreed with 1, and partially agreed with 15 of OAG's 35 internal control findings and compliance issues. DCH officials disagreed with the finding related to the Recovery Act prompt pay requirements.

[23]The OAG defined known questioned costs as questioned costs that are specifically identified by the auditor.

[24]The OAG reported that the $4.4 billion known and likely questioned costs were based on documentation provided to them during the audit; however, it is possible that DCH could obtain additional documentation that would reduce the amount of questioned costs.

[25]The OAG defined likely questioned costs as the auditor's estimate, based on the known questioned costs, of total questioned costs.

[26]Under the Recovery Act, states are not eligible to receive the increased FMAP for certain claims for days during any period in which that state has failed to meet the prompt payment requirement under the Medicaid statute as applied to those claims. See Recovery Act, div. B, title V, §5001(f)(2). Prompt payment requires states to pay 90 percent of clean claims from health care practitioners and certain other providers within 30 days of receipt and 99 percent of these claims within 90 days of receipt. See 42 U.S.C. §1396a(a)(37)(A).

[27]According to the OAG, a cluster is a grouping of closely related federal programs that have similar compliance requirements. The programs within a cluster may be administered as separate programs, but are treated as a single program for purposes of meeting the audit requirements of OMB Circular, A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Michigan's Office of Internal Audit Services Provides Important Oversight and Monitoring of Recovery Act Funds

State agencies must complete a self-assessment evaluating their internal controls and biennially issue a report on the status of their internal control system. The self assessment must include a description of any material internal control weaknesses and a corrective action plan to address the weaknesses. OIAS reviews these self assessments and issues an Internal Control Evaluation report on a biennial basis. This report highlights best practices that departments have employed that may be helpful to other departments and identifies OIAS's planned actions to assist departments in making improvements to internal controls. OIAS issued its most recent Internal Control Evaluation report in November 2009, and it was based on evaluations of internal controls by Michigan departments as of September 30, 2008. OIAS officials told us that when Congress enacted the Recovery Act in February 2009, they began designing an approach for monitoring Recovery Act funds and that the office assigned 2 of its 45 internal audit staff to work full-time on programs funded by the Recovery Act, and plans to increase staffing as necessary. OIAS officials also told us that they selected eight programs for detailed review based on an assessment of the control risks posed by the programs, and that they planned to conduct further reviews of the selected programs as spending occurred.[28]

Along with OAG and OIAS efforts to monitor Michigan's state agencies through audits, reviews, and technical assistance, state agencies are responsible for monitoring their subrecipients. For example, MDE is responsible for monitoring LEAs, including DPS. An OIAS official told us that they observed MDE staff monitoring of several LEAs in April 2010. They also told us that they plan to observe how the Michigan Department of Human Services—the state agency that oversees the Weatherization Assistance Program—conducts onsite reviews of the local agencies that administer the program to assist in identifying opportunities for improvements in monitoring processes and procedures.

Lastly, in July 2010, OIAS officials told us that in fiscal year 2011 they intend to prepare summaries of findings reported by Michigan's accountability professionals related to federal programs, including Recovery Act-funded programs, which they anticipate will identify issues

[28]The eight programs selected for review are the: (1) ESEA Title I grants, (2) Individuals with Disabilities Education Act (IDEA), Part B grants, (3) School Improvement Grants, (4) Clean Water/Drinking Water Revolving Funds, (5) Weatherization Assistance Program, (6) Workforce Investment Act of 1998, (7) State Energy Program, and (8) Byrne Justice Assistance Grant.

to consider at a state-wide level, including lessons learned from oversight and monitoring of Recovery Act funds.

Local Accountability Efforts Also Provide Oversight and Monitoring of Recovery Act funds

Local accountability practices, including single audits by independent public accountants, also help provide oversight and monitoring of federal programs including Recovery Act funds. We discussed accountability and oversight efforts with officials from two Michigan localities: the City of Farmington Hills and Kent County. Officials with both localities told us they rely upon the Single Audit process as a safeguard to provide oversight over federal program activities, including program funds provided by the Recovery Act.

The City of Farmington Hills and Kent County rely on the work of an independent public accountant for financial auditing. In November 2009, Farmington Hills received its most recent Single Audit Report for the year ending June 30, 2009. The Farmington Hills' auditor provided an unqualified opinion on the city's financial statements for the year ended June 30, 2009, and did not report any matters involving compliance with governmental regulations, nor any deficiencies in internal controls over major programs. In June 2010, the independent public accountant for Kent County issued its Single Audit Report that included an unqualified opinion on its financial statements for the year ended December 31, 2009, and did not identify any weaknesses in internal control that should be considered as material weaknesses nor any instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements.

In April 2010, officials in the Detroit Office of Auditor General told us that their Recovery Act initiatives included an internal control risk assessment and review of the control structure and the preparedness of three city departments that received Recovery Act funds: Detroit's Department of Human Services, the DWDD, and the Detroit Police Department. In October 2009, the Detroit Office of Auditor General recommended to the Detroit City Council that the city strengthen its overall reporting process to comply with the accountability and transparency requirements of the Recovery Act. The auditor's report noted that conditions related to weaknesses in reporting, bank reconciliations and other internal controls cited in the city's single audits increased the financial control risks over Recovery Act funds. In July 2010 these officials told us that they have continued to monitor Recovery Act funding and plan to issue two audit reports in September 2010 that cover the city's WIA Summer Youth Employment Program and the Homelessness Prevention and Rapid Re-Housing Program. These officials also stated that they have dedicated two auditors to reviewing Recovery Act programs, with plans to audit at least six different city departments by June 2011.

On May 28, 2010, Detroit's independent public accountant issued its Single Audit report—covering the fiscal year ended June 30, 2009—which included federal award expenditures of approximately $283 million, of which $3.5 million were Recovery Act funds. The report identified approximately $14 million of questioned costs. Of the 14 major programs audited, 1 received an unqualified opinion on compliance with government requirements, 11 received qualified opinions, 1 received an adverse opinion, and 1 received a disclaimer of opinion. The report noted significant deficiencies including material weaknesses in internal controls over major federal programs such as the Community Development Block Grant and the Workforce Investment Act.

State and Local Officials Told Us They Are Addressing Internal Control Challenges We Previously Reported

To address financial management and internal control challenges we previously reported on in September 2009 (GAO-09-1017SP) and May 2010 (GAO-10-605SP) we followed up on actions taken and those planned by the MDE and DPS, and state and local agencies with responsibility for the WIA Program.[29] Over the course of our Recovery Act work in Michigan during the period from March 2009 through August 2010, we interacted with OIAS officials regarding internal control challenges and opportunities we identified with activities and programs involving Recovery Act funds. In December 2009, OIAS officials told us they would take steps to address issues we reported on in September 2009, such as oversight and monitoring challenges at MDE, including DPS, and the payroll and eligibility challenges at DELEG and DWDD for the WIA program.

In July 2010 officials with MDE, DPS and DELEG—the state agency responsible for the WIA program—as well as ERO officials told us that some actions have been taken and that others are underway to address the internal control challenges described in our prior reports. For example, MDE officials told us that they continue to monitor Recovery Act funds

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

provided to DPS and, among other things, they are using an independent public accounting firm to monitor payroll and non payroll expenditures at DPS. In June 2010, MDE officials conducted a site visit at DPS that included MDE staff as well as representatives from the OIAS. This monitoring included a review of over $35 million of teacher salaries and benefit payments charged to Recovery Act SFSF.

During July 2010 meetings to discuss OIAS's ongoing oversight efforts related to Recovery Act-funded programs, officials told us that, among other things, they participated in several on-site visits at Michigan schools and evaluated MDE's monitoring process over ESEA Title I grants as part of their ongoing internal control oversight activities involving MDE. They concluded that although MDE may have effective program monitoring practices in place over LEAs, the agency has not implemented strong fiscal monitoring practices. OIAS officials stated that this may be because MDE relies on the schools' single audits as a control to identify fiscal issues that may exist at the school level. If there are findings in the school's single audit, MDE typically will follow-up to determine how the issue can be addressed. According to OIAS officials, MDE's Office of Field Services plans to hire an auditor in the near term and initiate a fiscal monitoring program, which OIAS plans to review. They plan to focus their own reviews on schools with ESEA Title I findings reported in single audits and large amounts of funding. OIAS officials also told us they plan to conduct site visits independently, and to share the results of their reviews with MDE. In response to our September 2009 report regarding control challenges at DPS, OIAS officials have had several discussions with officials in MDE's Field Services and Grants Office regarding ongoing oversight at DPS. OIAS officials also noted that they contacted DPS and will work directly with DPS officials to plan for and schedule an August 2010 OIAS on-site review.

OIAS officials also told us that they are continuing to work with DWDD and other stakeholders to address the payroll and eligibility challenges that we identified with the WIA program in Detroit. During a July 2010 follow-up visit, DELEG officials provided us with documentation describing the DWDD plan for improved monitoring of future programs. The plan—which, as of July 2010, is under review by DWDD officials—includes revised monitoring forms as well as other guidance. DWDD officials also told us they developed and approved eligibility criteria for use in future youth employment programs.

OIAS officials noted that they met with the Director of the WIA Monitoring Unit at DELEG to obtain an understanding of how the program's expenditures are monitored and how they assure that expenditures reported by each of the 25 Michigan Works! Agencies (MWAs) are accurate.

Further, in May 2010, we reported on recipient reporting issues at DELEG for the WIA program; MDE, DPS, and Michigan State University for salaries that were retroactively paid with Recovery Act funds; and with DPS for issues with non reporting of contractor and sub contractor jobs.[30] In the Recipient Reporting section of this report we discuss our July and August 2010 follow up on these issues. In addition, OIAS officials told us that their work in recent months included consideration of recipient reporting issues at DELEG, MDE, and DPS.

Although Economic and Budgetary Challenges Persist at the State and Local Levels, Recovery Act Funds Have Provided Partial Relief

Michigan continues to experience economic challenges as a result of the decline in the automotive industry, which has lead to budget pressures and declines in state revenues. Michigan has addressed its fiscal year budget gaps since the beginning of the Recovery Act through a combination of Recovery Act funds and cost cutting measures to balance the state's budget. Over the 3 years ending September 30, 2011, Michigan expects to use $4.2 billion for budget stabilization, including approximately $2.6 billion of state funds made available as a result of the increased FMAP, and Recovery Act funds of $1.3 billion in SFSF education stabilization funds, and $290 million in SFSF government services funds.[31] According to state budget officials, as of July 16, 2010, expenses of Michigan state entities totaled about $7.0 billion of the approximately $7.4 billion in Recovery Act funds it has been awarded.[32] Recovery Act funding has been used for various programs including Medicaid, education, workforce training, and transportation.

[30]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 2010).

[31]As previously reported, in fiscal year 2009, Michigan had expended almost all of its government services funds (approximately $288 million) for public safety programs, including the Michigan State Police and Department of Corrections.

[32]According to State Budget Office officials, the amount of Recovery Act funding awarded is defined as the amount appropriated by the Michigan legislature as of July 16, 2010.

Additional Actions Needed to Address Budget Gaps

As of June 30, 2010, slippage in revenue estimates leaves the state with a projected General Fund shortfall of approximately $200 million for the fiscal year ending September 30, 2010.[33] Officials are seeking solutions to this shortfall while addressing the projected General Fund budget gap for fiscal year 2011.

According to state budget officials, Michigan has a balanced School Aid Fund budget for fiscal year 2011.[34] However, as of August 10, 2010, Michigan did not have an approved General Fund budget for fiscal year 2011. The Governor's originally proposed budget estimated a shortfall of approximately $1.1 billion.[35] To partially address the projected shortfall, the Governor's proposed budget assumed that Congress would extend the increased FMAP provided by the Recovery Act—which was to end on December 31, 2010—to June 30, 2011. On August 11, 2010, state budget officials told us that based on recent federal action extending the increased FMAP, Michigan estimates it will receive approximately $300 million.

State officials explained that because state law requires the budget to be balanced, the Governor advanced, as part of the fiscal year 2011 Executive budget, a number of options to address the estimated $1.1 billion budget gap. For example, the Governor proposed corrections reforms to reduce prisoner population and allow for closure of up to five prison facilities; and state employee benefit reforms, including pension reforms.[36] Additionally, state officials described to us a law enacted in May 2010 reforming the Michigan Public School Employees' Retirement System benefits under which, among other changes, teachers will be required to

[33] At September 30, 2009, Michigan's audited financial statements reflect a General Fund balance of $177.2 million and the School Aid Fund had a fund balance of $251.1 million.

[34] In July 2010, Michigan enacted a state school aid budget appropriations bill for fiscal year 2011, wherein the state appropriated approximately $10.9 billion from the school aid fund and approximately $184 million in Recovery Act funds to public schools and other state educational programs.

[35] Officials from the state budget office told us that the $1.497 billion estimated shortfall is made up of a $1.1 billion shortfall in the General Fund and a $0.4 billion shortfall in the School Aid Fund.

[36] On August 18, 2010, the Governor detailed her recommendations— including a 3 percent administrative reduction (for fiscal year 2011) in all state agency spending and other spending and revenue proposals—to address the budget shortfalls for fiscal years 2010 and 2011.

contribute 3 percent of their salary for retiree health care benefits.[37] They explained that this change does not affect the state's budget, as all Michigan school teachers are local government employees, but will provide savings to local governments. State officials estimate that this savings in fiscal year 2011 will be $515 million, which officials anticipate will enable the districts to retain staff. In addition, state officials explained that the legislation included incentives for early retirement of school teachers and through June 30, 2010, over 17,000 teachers statewide have retired.[38] The administration has proposed similar changes for state employee pensions, estimating that these reforms will affect the state budget by a reduction of expenses totaling approximately $98 million in fiscal year 2011.[39] The proposal for changes to the State Employee Pension Plan also included incentives for early retirement. Further, on August 25, 2010, state budget officials told us that based on recent federal action Michigan will receive approximately $318.1 million from the federal government from the Education Jobs Funds. Officials told us that at least ninety-eight percent of the award ($311.8 million) would be distributed to LEAs and up to $6.3 million may be set aside for administration of the program.[40] Officials also told us that the method by which LEAs would receive the funding has yet to be determined.

[37]2010 Mich. Pub. Acts 75.

[38]State officials told us that they had not estimated what, if any, portion of the total retirees were a result of the early out provisions of the legislation; they noted that for the most recent fiscal year ended September 30, 2009, 6,000 teachers had retired.

[39]State officials told us that total savings in fiscal year 2011 as a result of the Governor's proposed reforms to the Michigan's State Employee Retirement System are estimated to total $253 million. Estimated general fund savings to the state would amount to $98 million. State officials also estimate that the reforms will result in reduced expenditures of $155 million, a portion of which is reimbursable by the federal government, and as a result federal and other state restricted revenues would in turn be reduced by $155 million.

[40]Section 101 of Public Law 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 using 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.

Michigan Continues to Face Significant Economic Challenges and Officials Are Concerned about the "Cliff Effect" When Recovery Act Funds Diminish

Michigan continues to face significant economic challenges. State officials told us that over the last decade Michigan has lost nearly 850,000 jobs; much of the job loss due to the changes that have occurred throughout the auto industry, the mainstay of its economy. Its unemployment rate of 13.1 percent as of June 2010, is one of the highest in the nation.[41] Projected state revenues for the fiscal year ended September 30, 2011 of $17.9 billion are approximately 14 percent below revenues of $20.9 billion for the year ended September 30, 2008. State officials expressed continuing concern about Michigan's long-term fiscal prospects. They told us they are aware of the upcoming "cliff effect" in fiscal year 2012, when Recovery Act funds diminish and they are working to devise solutions to address the potential budget shortfall.

According to state officials Michigan took a number of cost-cutting measures over the last several years. For example, during fiscal years 2009 and 2010, Michigan closed various state facilities, including eleven correctional facilities and prison camps, a state psychiatric hospital, and six juvenile facilities; mandated furlough days for state employees; and increased the rate of contribution by state employees for health insurance.

The Governor's proposed budget also indicates that the state may forego up to $528 million in federal aid—largely for transportation—due to an inability to provide required matching funds. State budget officials told us that the legislature is considering ways to meet the matching requirements, but as of August 10, 2010, no decisions have been made.[42]

Farmington Hills

As we previously reported, local governments we visited in Michigan are facing the pressure of balancing budgets in the midst of declining revenues. Although Recovery Act funds have offered some temporary assistance, local officials noted that these funds do not directly alleviate local fiscal pressures. Our work for this report included visiting the city of Farmington Hills to better understand these pressures and the Recovery Act's impact on the community. Table 1 provides recent population and unemployment data.

[41]GAO analysis of U.S. Department of Labor, Bureau of Labor Statistics (BLS) data. 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.

[42]Officials told us that Michigan would need to provide an additional $84 million in fiscal year 2011 to meet federal matching requirements.

Table 1: Background on Farmington Hills

Population	Locality type	Unemployment rate
78,675	City	11.0%

Source: U.S. Census Bureau and U.S. Department of Labor, Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics (LAUS) 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.

Through July 31, 2010, Farmington Hills had been awarded a total of $965,535 in Recovery Act funds through three grants. Farmington Hills officials provided us with the following information on Recovery Act spending through July 31, 2010.

- EECBG: The city had spent approximately $240,548 of its $791,300 award—roughly 30 percent—on items such as a solar hot water heater, solar panels, and lighting improvements for a municipal building.
- Edward Byrne Memorial Justice Assistance Grant: The city had spent approximately $47,000 of its $74,068 award—roughly 63 percent—on purchasing new equipment, including police communication devices and a digital video file storage and transfer device.
- Community Development Block Grant: The city had spent its entire $100,169 award on rehabilitating 12 single-family, owner-occupied homes for low-to-moderate-income families.

In addition to these grants, city officials told us that Farmington Hills had also benefited from Recovery Act funds—totaling approximately $2.7 million that are administered by the Michigan Department of Transportation— for repairing, resurfacing, and rehabilitating two roads in the city. City officials told us that as of July 31, 2010, a total of approximately $1.4 million had been spent on the road projects.

City officials said that Recovery Act funds had allowed the city to undertake projects and purchase equipment it otherwise would not have been able to, but that these funds have not had an impact on the city's fiscal stability. Given that the city plans to spend nearly all of its Recovery Act funds on one-time projects or acquisitions, officials do not foresee having to deal with a "cliff effect" once Recovery Act funds are expended.

City officials told us that Farmington Hills has continued to experience significant fiscal pressure due to a steady decline in its property tax and state shared revenue—its largest sources of income.[43] The City's fiscal year ends June 30, 2011, and its general fund budget amounts to approximately $46.6 million, which represents a decrease of 12 percent from its fiscal year 2010 general fund budget of about $53 million. To address their fiscal situation, city officials plan to aggressively apply for grants, continue to cut expenditures, and tap into their reserves. The city also plans to reduce the number of full-time staff by approximately 50—or 13 percent—during fiscal year 2011 through a combination of retirements, not filling vacant positions, and layoffs.

State and Locality Comments on This Summary

We provided the Governor of Michigan with a draft of this appendix, and staff in the Michigan Economic Recovery Office reviewed the draft appendix and responded on August 16, 2010. We also provided relevant excerpts to officials from the localities we visited. They agreed with our draft and provided clarifying or technical suggestions that were incorporated, as appropriate.

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[43]Tax revenue—estimated to be approximately $26.9 million—and state shared revenue—estimated to be about $5.5 million—represents about 70 percent of the City's general fund estimated revenues for fiscal year 2011.